# SHOW ME CAPITAL

## Financing Early-Stage Companies in Missouri

December 2019

**WITH SUPPORT FROM**

University of Missouri System
COLUMBIA | KANSAS CITY | ROLLA | ST.LOUIS

MISSOURI TECHNOLOGY CORPORATION

MOSourceLINK

# PURPOSE OF THIS REPORT

MOSourceLink is becoming the connective tissue to link and provide support for the entrepreneurial environment across the state of Missouri. The program is building a stronger entrepreneurial infrastructure across the state by linking together key assets: resources, networks, community, corporations, higher education and capital.

The Show Me Capital report focuses on the funding landscape for startup and early-stage companies in Missouri. Missouri can better connect its capital to leverage fully the assets that are currently sitting in multiple silos around the state. Coordinating capital and making sure that capital is widely visible to all growing companies will greatly enhance the environment for innovation and provide access to capital for rural and urban entrepreneurs.

This report provides a clearer picture of the capital landscape for emerging and growth businesses and is the basis for strategic recommendations to:

- increase capital sources
- make it easier for entrepreneurs to access capital
- help investors find attractive investment opportunities

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## ABOUT MOSOURCELINK

MOSourceLink is helping make Missouri the state for innovation between the coasts. With a network of 450+ business-building resources, MOSourceLink helps aspiring and established business owners start, grow and accelerate businesses across the state of Missouri.

The MOSourceLink website acts as a centralized hub that improves the visibility and value of the 450+ resources available to Missouri entrepreneurs. Through MOSourceLink.com, it provides:

- an online directory that points individual businesses to the right resource at the right time and is accessible to anyone 24/7/365
- a calendar of business events that shows educational and networking opportunities available throughout the state and within a region
- guides that detail how to start a business in a particular region
- hotline support answered by a knowledgeable Network Navigator who can get entrepreneurs to the right resource at the right time
- Personal Action Plans that outline next steps and next resources in the entrepreneurial journey

## HOW TO ACCESS LOANS, GRANTS AND CAPITAL

The vast array of so many different financing and funding options can make it difficult for entrepreneurs and business owners to determine which ones are right for them—and how to access those opportunities.

Business owners may be required to prepare a business plan, pitch, term sheet or other materials to access funding. If the business or business owner is not ready to meet the requirements of the lender or investor, it can be a frustrating experience.

A first step is to contact the MOSourceLink hotline (866-870-6500)—services are free to Missouri startups and existing business owners—for an initial triage, information about options available and suggestions for the best route to obtain funding or financing.

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# A LETTER FROM PRESIDENT CHOI

Moses Austin (mining). Adolphus Busch (brewing). Henry Bloch (taxes). Walt Disney (cartoonist). Annie Fisher (hams). J.C. Penney (retail). Nell Donnelly Reed (dress design). Sam Walton (retail).

**Missouri's entrepreneurs have been changing the face of the state and the future of the country for 200 years.**

These dreamers and doers spark the communities in which they live, their state and the world beyond.

During my tenure as president of the University of Missouri System, I have pushed for a renewed partnership with the entire state of Missouri. We must serve more than the students on our four campuses. We must reach out to change the lives of all of our citizens by harnessing the power of research, innovation, education and outreach.

As a public research university, we must do more to contribute to economic development in the state. Last fall, I announced that the University of Missouri System would support the expansion of MOSourceLink, a system to connect entrepreneurs and small business owners with the resources that can help them start and grow businesses. This concept was incubated in Kansas City at the University of Missouri-Kansas City Innovation Center. KCSourceLink has become essential to the entrepreneurial ecosystem in the Kansas City region, and MOSourceLink will do the same for the state as a whole.

This report is a first step in addressing one of the key challenges for growing innovative companies: access to capital. If we are to move our innovations out of our research labs and into the market place, we must understand where these companies get the fuel for their growth. Our entrepreneurs need access to startup and growth capital to develop prototypes, take ideas to market, open storefronts, finance executive talent and fund expansion.

We have the opportunity to create a networked, comprehensive, regional entrepreneurial ecosystem that reaches citizens in all corners of the state. We need to nurture microloans, support early-stage investments, connect dealmakers and streamline the capital pipeline. It will take all of us to meet this goal, an unprecedented level of partnership among regional entrepreneurs, investors, businesses, nonprofit groups, lenders, educators, public officials and residents to create a more cohesive, and better funded, entrepreneurial ecosystem. This partnership will enhance opportunities for entrepreneurs, investors and workers in our region to drive regional growth, job and wealth creation.

Missourians impact the world. We must help them.

Dr. Mun Y. Choi
President, University of Missouri System

# EXECUTIVE SUMMARY

In Missouri, new and young firms, from a wide variety of industries, created 44,535 jobs in 2018 and accounted for about 80% of all new jobs. Additionally, these young firms are drawing talent to the communities within which they operate. A strategy for economic development that focuses on helping businesses start and grow is critical to the growth of the Missouri economy, leading to the creation of good jobs, a more talented workforce and better resources in the state.

A key component of that growth strategy is making sure that Missouri's early-stage companies can access the capital they need to start and grow.

This report explores capital pools and access to them in every part of the state. The undertaking reviewed 30 loan programs, analyzed data for nearly 600 grant and equity investments, gathered input from a network of 500+ resource organizations and researched more than 50 venture capital funds.

It is evident that Missouri has extensive program offerings to support the capital needs of early-stage businesses. To provide the funding needed to fuel Missouri's entrepreneurs and small businesses, these programs must be better connected and activated to support these engines of economic growth.

Missouri can build a strong infrastructure supporting early-stage capital access for high-growth potential businesses by:

- Increasing the amount of and access to loan funding, especially in rural areas
- Supporting companies in the earliest stages of the growth pipeline with grant funding
- Improving access to equity investment
- Activating the statewide network of resources for entrepreneurs and small business

There are a variety of capital sources available to startup and growth businesses including loans, grants and equity investments.

# LOANS

Young companies can tap into conventional bank loans provided they have sufficient collateral to secure them. Without sufficient collateral, companies can access a variety of non-traditional alternative loan programs. Microloan programs and other revolving loan funds serve as key capital sources for businesses not yet “bankable” or that are unable to access capital through traditional financing institutions.

## KEY FINDING: MISSOURI NEEDS MORE ALTERNATIVE LENDING, ESPECIALLY IN RURAL AREAS

On paper, a number of Missouri organizations have alternative loan funds for entrepreneurs and small businesses that do not qualify for traditional bank lending. In reality, some of those resources are underutilized and/or underfunded. Of the 33 micro and revolving loan programs identified in Missouri, 11 made loans in 2018, 14 did not and 8 did not report.

Justine PETERSEN is by far the largest player in microlending in the state, with almost 3,000 loans from 2014–2018. According to the leadership of Justine PETERSEN, there is consistent unmet demand for microloan funding.

Rural entrepreneurs appear to have the least success getting microloans. From 2014–2018, 75% of Justine PETERSEN’s loans went to companies in the St. Louis area, 16% to Kansas City-based firms and 9% to firms in other parts of the state. As a nonprofit lender, Justine PETERSEN is constrained by access to capital and funding to support capacity in rural areas.

Several organizations in Missouri qualify for microloan funds that could be disbursed to entrepreneurs and small business owners. It does not appear that Missouri is taking full advantage of those programs. Of the 27 Certified Development Financial Institutions (CDFIs) in Missouri, only 12 received financial assistance awards that can fund microlending in the past five years and only three got awards in 2018.

New Markets Tax Credits from the U.S. Treasury are intended to spur new or increased investment into operating businesses or real estate projects in low-income communities. Of 364 Community Development Entities in Missouri that are eligible to receive NMTCs, five were given NMTC allocations in 2018. Reporting data do not include how much of the allocations were used for microlending vs. real estate investment. A study in 2008 showed that about 62% of NMTC projects were real estate investments. Twenty-seven organizations have Rural Business Development Grants from the U.S. Department of Agriculture. It is not clear how those are being used to support businesses.

Sixteen communities in Missouri received Community Development Block Grants in 2018 alone. Most of these grants go to larger cities in urban areas, including metro St. Louis, metro Kansas City, Columbia, Jefferson City, Springfield and Joplin. It is not clear if any of these funds are being used for microloans, although that is an allowable activity.

Goal:

- Increase the availability of alternative loans for early-stage businesses in Missouri that are not yet eligible for traditional bank loans from $18 million in 2018 to $31 million by 2025.

Recommendations:

*Increase loan capital*

- Create a continuum of products that provide loans of less than $250,000 for non-bankable companies.
- Increase available alternative loan funds by $7 million per year by 2025 by exploring additional funding sources that could support loan pools strategically placed across the state. Federal mechanisms could include programs sponsored by the U.S. Small Business Administration and the Departments of Agriculture, Commerce and Treasury.
- Pilot test a community-directed loan fund in select underserved rural communities by creating and activating $2 million per year in loan capital. This capital can be paired with financial institutions or private investment to fund small business growth, triggering additional private investment through bank, credit union and other private investment.

*Increase access to loans*

- Missouri does have existing loan capital that is not being deployed, especially in the rural areas. Maximize the use of existing revolving loan funds in Missouri by convening ownership groups to determine available undispersed funds and mechanisms to move $4 million more into the market by 2025.
- Significantly increase the visibility of available loan programs across Missouri through a strong marketing program that raises awareness of existing loan products and services to appropriate audiences.
- Increase support for programs that provide entrepreneurship and business development training to develop a pipeline of borrowers for the various loan products offered by traditional and non-traditional lenders.

# GRANTS

If early-stage companies do not get the necessary investments to prove concepts and test markets, they die before they have a chance to grow and prosper. Grants play a critical role in funding this "valley of death" between concept and revenue, as they fuel companies too early for investors who often expect immediate returns. Grants do not have to be repaid and the organization giving the grant does not take an equity position in the company, so there is no dilution of the company's stock that could hinder later-stage investment. Business plan competitions, reward-based crowdfunding and other contests provide grant funds for early-stage businesses.

Early-stage technology companies, especially those engaged in research and development, can also seek funding in the form of grants from the federal government. Small Business Innovation Research and Small Business Technology Transfer programs are two federal mechanisms created to incent research and development within small businesses. Each year, federal agencies with extramural research and development budgets that exceed $100 million are required to set aside a portion of that funding to the SBIR and STTR programs. Small businesses can compete for these funds.

## KEY FINDING: THE PIPELINE OF GROWTH COMPANIES NEEDS SUPPORT AT THE EARLY STAGES

From business plan competitions to proof-of-concept grants, Missouri has a number of programs that support very early-stage company development. Most of these are located in urban areas.

Missouri lags leading states in garnering federal research grants (SBIR/STTR). Within Missouri, St. Louis outperforms every other region in the state. BioGenerator's Grant2Business program has proven the impact of supporting SBIR/STTR applications. The number of grants from the National Institute for Health to St. Louis based companies nearly doubled following the inception of the program.

Programs like the SLUStart I-Corps at Saint Louis University are designed to help university researchers and community inventors and innovators extend their focus beyond academia and the laboratory. One benefit of the program is better positioning for SBIR/STTR grants.

A federal grant received in 2019 is allowing the Missouri Small Business Development Center network to expand support in the classroom and through counseling to drive more successful SBIR/STTR grant applications across the state. A program previously offered, the MoTIP program, provided Phase 0 grants offering help companies in applying for SBIR/STTR Phase 1 grants. That program drove increases in successful applications.

Digital Sandbox KC and Arch Grants are examples of regional grant programs that support early-stage companies to survive the "valley of death," leading to follow-on funding. These regional proof-of-concept grant programs have developed through state and federal support. Funding for these grant programs often require 1:1 match from the community. Entrepreneurial support organizations could take advantage of more state and federal funding if there were a pool of matching funds that could be quickly allocated to special projects.

### Goals:

- Secure $2 million per year of proof-of-concept grants to support a minimum of 80 Missouri proof-of-concept projects per year by 2025.
- Increase the amount of Missouri SBIR funding from $20 million to an average of $25 million per year by 2025, and increase awards to companies outside the St. Louis region.

### Recommendations

*Increase grant capital and early-stage investment*

- Increase public and private investment in existing and emerging grant programs that support proof-of-concept and market entry positioning.
- Better position Missouri to access public funding, especially state and federal grants. Create a pool of matching funds that can be rapidly allocated to special projects.

*Increase access to grants and early-stage investment*

- Create and implement a strong awareness campaign for SBIR and STTR grants that drives people to existing SBIR/STTR training programs.
- Reinstate the Missouri SBIR/STTR Phase 0 program in partnership with programs that offer training, grant application feedback, strategy consultations, mock panel reviews and administrative support for application development, especially targeting southern portions of the state.

# EQUITY CAPITAL

Startup and early-stage companies with high-growth potential often turn to equity investors for capital. Investors will provide this capital in exchange for convertible debt or ownership equity. Equity investors look for three key attributes: 1) differentiated products addressing large global markets, 2) investment opportunities with exceptional potential for exit in a reasonable period of time and 3) high return multiples on invested capital. Equity investment in startup companies usually comes in stages. Founders and their families and friends often provide the first capital.

After this, companies can turn to angel investors, who are often organized into groups to pool investment dollars and share diligence efforts, and to other seed capital funds. Companies that continue to grow and have increasing capital needs will turn to venture capital firms to drive later stages of development. Venture capital firms comprise "general partners" who invest funds provided by other "limited partner" investors. Once companies become profitable, or can demonstrate a clear path to profitability, they can access additional private equity investments or complete an initial public offering of equity (IPO).

## KEY FINDING: MISSOURI COMPANIES NEED BETTER ACCESS TO EQUITY STAGE INVESTMENT

An investment infrastructure exists in Missouri for early- to later-stage capital, but it has significant gaps and weaknesses.

Angel groups bridge a critical gap between grant/friends and family financing and VC investment. In Missouri, angels are organized in only four of the cities (St. Louis, Kansas City, Columbia and St. Joseph). An informal network of angels operates in Springfield. According to national data, many individual angel investors work independently, are not associated with angel networks or funds and may be hard to access due to lack of visibility.

While Missouri ranks above Kansas, Iowa and Nebraska in terms of venture capital raised, it lags behind other Midwestern states like Illinois, Michigan and Ohio, and far below the leading states of California and New York. In addition, Missouri-based VC funds are investing in early-stage companies, but not necessarily those based in Missouri. Out of approximately 450 investments made by Missouri-based VC funds from 2014–2018, about 30% were in Missouri-based companies.

National data suggests that family offices are becoming more interested in entrepreneurial investments. More research is needed to determine what family offices in Missouri are interested in early-stage investing and how best to connect them to the existing infrastructure.

A number of incubators and accelerators host demo days and other showcase events throughout the state. These events provide an opportunity to bring the companies featured to the attention of a broader investor network. Kansas City's CapitalMatch program offers another way to showcase investment opportunities.

Goals:

- Double seed capital investments (under $1 million) from $13 million in 2018 to more than $26 million per year by 2025.
- Increase venture capital investments ($1 million - $10 million) from $122 million to more than $250 million per year by 2025.

Recommendations:

*Increase VC capital in Missouri*

- Maintain and increase state-funded seed stage investment funds.
- Work with existing and emerging angel capital groups to increase membership, expanding to other parts of the state and encouraging more participation.
- Explore an angel tax credit program in Missouri.
- Promote Missouri's entrepreneurs and regional deals to regional, national and international venture capital firms to drive outside investment into Missouri.
- Recruit outside VCs to place offices in Missouri.
- Better connect and make visible family offices across the state.

*Increase access to VC capital*

- Conduct networking events that increase the interconnectedness of early-stage investors.
- Create mechanisms that showcase Missouri-based early-stage companies to other communities of investors within the state, regionally and nationally.
- Connect investors, gatekeepers, entrepreneurs and venture capital from inside and outside the state through networking events and technology.
- Strengthen programs like InvestMidwest that bring together entrepreneurs and investors.
- Support programs that create deal flow and connections between Missouri cities and rural areas.
- Evaluate the use of technology to make deals more visible to individual investors and entrepreneurs, providing better visibility of what is being funded to a larger audience.

## KEY FINDING: THE STATE OF MISSOURI NEEDS TO INCREASE ITS SUPPORT OF INNOVATION-LED COMPANIES

Local, state and federal governments benefit when rapidly growing companies create jobs and generate tax revenue. This makes early-stage companies, which typically generate job growth, of great interest to economic development agencies. Therefore, governments will often provide incentives that encourage private investment or capacity-building grants to support programs that, in turn, support community businesses.

State investment in early-stage companies flows through the Missouri Technology Corporation. MTC provides early-stage capital to high-growth companies through direct loan and investment programs, support for innovation centers and grants to entrepreneurial support organizations.

According to the 2018 annual report, since 2011 the MTC has co-invested in more than 120 companies that have leveraged state funds to raise $600 million in additional private capital. Since 2015, these companies have created almost 1,000 jobs. A study of MTC-funded companies compared to those who applied for IDEA funds but did not receive funding further illustrates the catalyzing nature of these investments. Those with MTC funding raised significantly more additional funding than those who did not receive MTC investments.

In recent years, MTC's funding for innovation support has been cut dramatically, from a high of $23 million for FY2017 to the current level of $3 million for FY2019. In addition to the critical and successful programs that MTC funds directly, MTC is the only statewide mechanism supporting early-stage companies.

Goals:

- Activate the statewide network of resources for entrepreneurs and small businesses to improve access to capital; connect with and educate residents on how to access available capital.

Recommendations:

- Tell the story of Missouri investments on a state, national and international stage.
- Prepare a comprehensive set of resource materials on raising capital in Missouri and make it available to entrepreneurs, investors and support organizations. Promulgate best practices on deal structure and terms.
- Work with existing organizations that provide specialized education programs that support access to capital and increase referrals to those programs through a strong awareness campaign
- Strengthen the entrepreneurial support organizations that nurture the capital landscape in Missouri.

# BACKGROUND

## MAKING MISSOURI THE STATE FOR INNOVATION BETWEEN THE COASTS

Whether urban or rural, companies that are fewer than five years old are creating the net new jobs for America's communities.[1] In Missouri, new and young firms, from a wide variety of industries, created 44,535 jobs in 2018 and accounted for about 80% of all new jobs. Additionally, these young firms are drawing talent to the communities within which they operate. A strategy for economic development that focuses on helping businesses start and grow is critical to the growth of the Missouri economy, leading to the creation of good jobs, a more talented workforce and better resources in the state.

While all industries are critical to a thriving economy, Missouri has been looking specifically at the innovation sector. In the "American Heartland's Position in the Innovation Economy" report produced by the Walton Family Foundation, Missouri ranks 28th in the Milken Institute State Technology and Science Index. This index measures states on their science and technology capabilities that contribute to firm expansion, high-skills job creation and economic growth. The good news is that the state improved six ranks and six points from 2014 to 2016.[2] According to the STSI report, the state jumped from 31st in 2014 to 7th in 2016 in terms of risk capital and entrepreneurial infrastructure. One significant increase within that category was the number of companies receiving venture capital investments relative to total businesses.[3] That progress notwithstanding, Missouri does not crack the top 25 in this innovation ranking, coming in 30 overall.

The state has been working to improve its position in the innovation economy. Released in September 2017, the Missouri Governor's Innovation Task Force report explored ways to improve the environment for Missouri's startup companies. The task force was charged with providing ideas that can help Missouri become the top performing state between the coasts for innovation-driven economic outcomes. Results from the report showed that:

- Missouri currently ranks in the mid-tier on most measures of innovation when compared to the other 49 states.
- There has been positive momentum on many fronts in larger Missouri cities including the St. Louis, Kansas City, Columbia and Springfield ecosystems. Missouri has also been recognized regionally and nationally as an emerging new technology startup hub between the coasts.[4]

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[1] "The Importance of Young Firms for Economic Growth," kauffman.org, Ewing Marion Kauffman Foundation, 14 September 2015, https://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/the-importance-of-young-firms-for-economic-growth

[2] Ross DeVol, Joe Lee and Minoli Ratnatunga, "2016 State of Technology and Science Index," statetechandscience.org, Milken Institute: Center for Jobs and Human Capital, 2016, http://statetechandscience.org/State-Technology-and-Science-Index-2016.pdf

[3] Ibid.

[4] Clara Hogan, "5 places emerging as America's new tech hot spots," MarketWatch.com, 3 April 2019, retrieved July 2019, https://www.marketwatch.com/story/5-places-emerging-as-americas-new-tech-hot-spots-2019-04-03

- Missouri ranks in the top tier nationally on some important measures – including 13th nationally in the rate of growth in capital available for startups.[5]

The report also identified five areas to improve the landscape for Missouri's entrepreneurs:

- Improve the **environment** by building a better entrepreneurial infrastructure, increase entrepreneurial culture and networks and build a more business friendly environment
- Build a **pipeline of ideas** by creating a better research base, increase technology transfer and build better system innovation support within institutions
- Invest in Missouri's **talent** by building a better educated workforce
- Improve the availability and sources of risk **capital** and create incentives that create investment
- Improve the **brand** of Missouri as the state for entrepreneurship and innovation

## THE OPPORTUNITY FOR MISSOURI

Building an integrated entrepreneurial infrastructure makes it easier to identify and act on gaps in the ecosystem, leverage and attract additional collaborations, improve pathways to existing resources and capitalize on innovative opportunities. No one organization can make the state of Missouri the leader in entrepreneurship and innovation, but working together all organizations across the state can contribute to building a better infrastructure to support companies that need capital to grow.

This report begins the process of addressing capital by looking at debt, grant and equity investments. The intent is to explore the early-stage funding currently available to Missouri entrepreneurs; describe what organizations fund capital programs like microloans and revolving loan funds; and provide an accounting of how much investment has been made to Missouri companies during the last five years.

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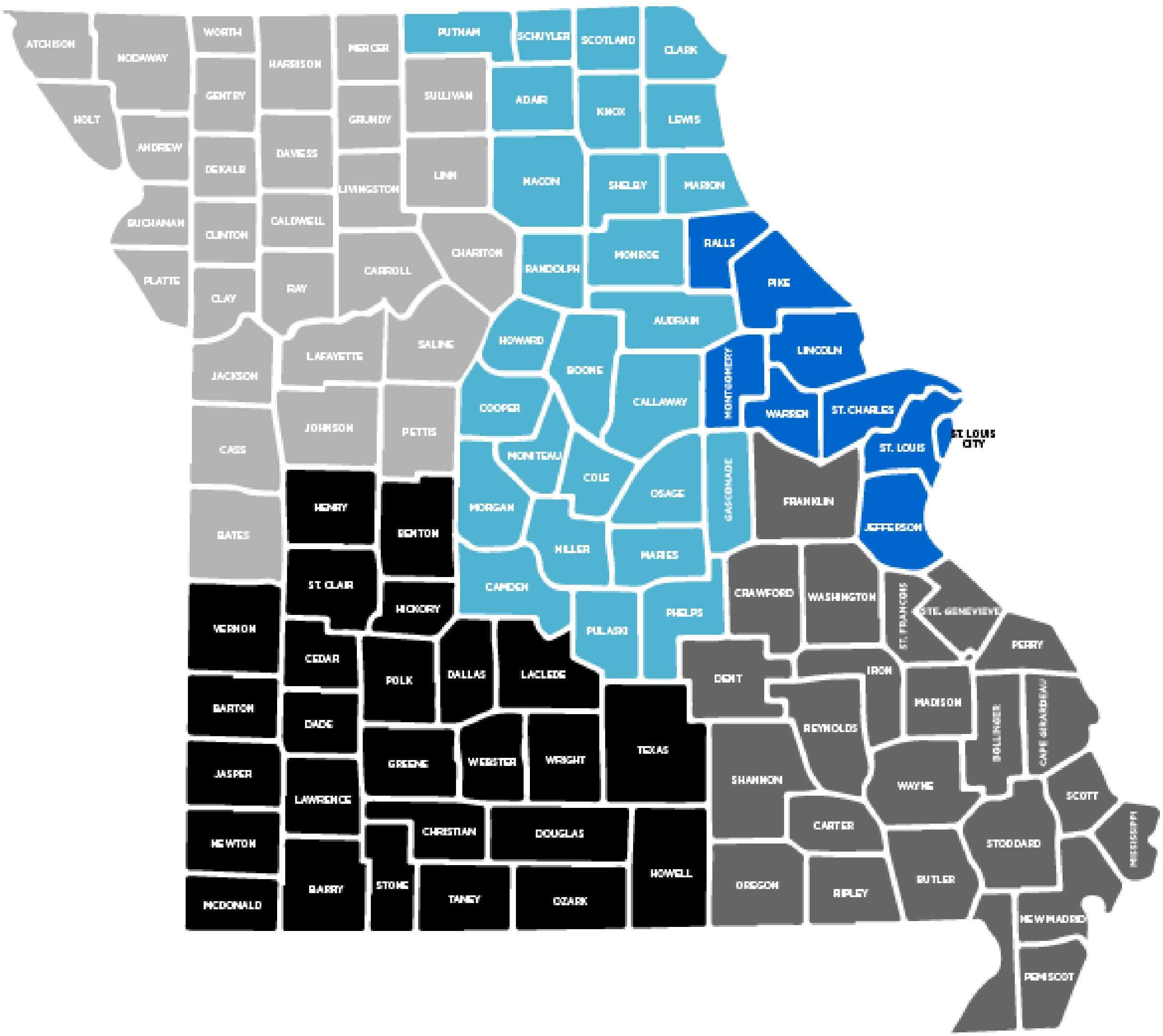
[5] Missouri governor's innovation task force proposes steps to improve the startup ecosystem. Retrieved February 2018 https://static1.squarespace.com/static/54fe01fde4b068b128045b78/t/59aef35f4c0dbf4efa99143f/1504637796670/20170831+GITF+final+summary+report.pdf

The intention is to show not just what is available, but in what regions. Throughout this report resources and programs are divided by region.

*Figure 1: Missouri Regions*

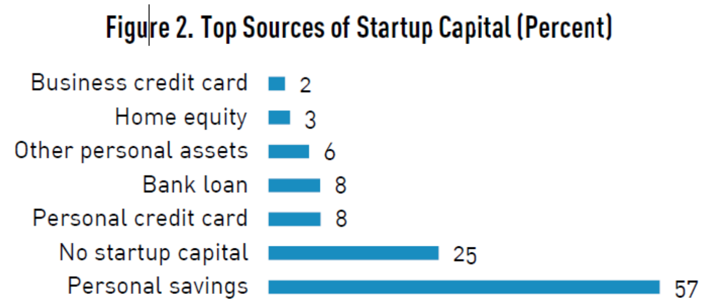



- Kansas City-Northwest Missouri
- Northeast-Central Missouri
- St. Louis
- Southwest Missouri
- Southeast Missouri

This report also includes suggestions for improving both the amount and the accessibility of funding for early-stage companies in Missouri.

# SOURCES OF CAPITAL BY TYPE OF ENTREPRENEUR

According to the U.S. Small Business Administration, a majority of startups depend on personal savings for startup capital (57%). Personal credit cards account for 8% of the top sources of startup capital, as do bank loans. About one quarter of startups do not need startup capital.[6]



Source: SBA Office of Advocacy from U.S. Census Bureau, Survey of Business Owners 2012.

In 2012, the typical small businesses used about $10,000 as startup capital. In the SBA's 2016 report, that amount has risen to $25,000. High-tech company startups may average $80,000.[7]

According to the SBA, venture and angel capital are a relatively small part of business financing, making up less than 2%. While these companies may be small in number, they have the potential (due to their market opportunities) to drive a disproportionate amount of impact in terms of jobs and economic growth.

A key point in understanding how startup and growth companies are funded is that companies are different and need different kinds of startup and growth capital. The descriptions below give insight into the four types of entrepreneurs and where they are most likely to get funding. It is also important to note the numbers of companies in each category. The chart below captures this distribution across Missouri. At any given time, about 300,000 people in Missouri are thinking about starting a business. [8]

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[6] Survey of Business Owners. SBA Office of Advocacy from U.S. Census Bureau, 2012
[7] "Small Business Finance: Frequently Asked Questions," sba.gov, U.S. Small Business Administration, Feb. 2014, retrieved June https://www.sba.gov/sites/default/files/2014_Finance_FAQ.pdf
[8] Data from U.S. Census Bureau County Business Patterns, 2011. Microenterprise numbers reflect non-employers. Second-stage numbers derived from Marty Romitti, Mary Bruton, Wendy Harrington and Annie Krieg, "*Chasing Cheetahs: Lessons from Missouri's Fastest Growing Businesses*," 2009, retrieved July 2017 http://www.missourieconomy.org/pdfs/cheetahstudyfinalversion.pdf. Starters derived from Paul Reynolds, et. al. *The Entrepreneur Next Door, Characteristics of Individuals Starting Companies in America,* Ewing Marion Kauffman Foundation, 2002, retrieved July 2017, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1262320.

*Figure 3: Types of Entrepreneurs in Missouri*

| Microenterprise | Innovation-Led | Main Street | Second Stage |
|---|---|---|---|
| 409,303 | 4,051 | 147,354 | 5,821 |
| Require less than $35,000 to start. Since 2009 recession, two kinds of microenterprises: those laid off who are looking to replace income and those trying to start a business as a way out of poverty. | Typically involves intellectual property that provides competitive advantage in the marketplace and enables high rate of growth. Often formed around life sciences or technology innovations. | Make up a large segment of our economy, serve communities' growing populations and define cultural character. Examples: local dry cleaner, grocery store owner, coffee shop owner, restaurateur, or graphic design boutique. | Survived the startup phase and are focused on growing and expanding. Between 10 to 99 employees and/or $750,000 to $50 million in revenue. Key priorities: strategic marketing, expansion, exporting and leadership talent. |
| <u>Funding sources</u>: Microloans, credit cards, personal savings. | <u>Funding sources</u>: Equity from angels investors and/or venture capital. Most likely candidates for SBIR funding. | <u>Funding sources</u>: Personal savings and growth through cash flow. Lines of credit, SBA-backed loans and microloans. | <u>Funding sources</u>: Likely candidates for bank financing and lines of credit. |

# MISSOURI EARLY-STAGE LOAN FINANCING

Missouri has a variety of capital options through savings and loan associations, commercial banks and credit unions. As a regulated industry, banks are limited in investment options and many early-stage companies don't have the collateral required for bank loans. Consequently, micro and other alternative loan options have developed to support early-stage, higher-risk entrepreneurs, expanding debt financing beyond regulated banks. These products serve to support business operations, improve the credit score of individuals creating businesses and help the companies establish a financial history to better position them to qualify for other funding options.

These alternative loan products are supported with a variety of mechanisms through the U.S. Small Business Administration, the U.S. Treasury, state and local governments, banks, businesses and the philanthropic community.

The chart below outlines the various sources of loan funding available in Missouri for individuals and businesses that are considered "non-bankable" or bankable with guarantees. In addition to microloans and SBA-backed loans, various community partners offer secured credit cards, credit-building loans and matched savings programs to assist with credit development and create savings that can be used to start a business.

*Figure 4: Missouri Early-Stage Loan Infrastructure*

| | Loan Size | | | | | |
|---|---|---|---|---|---|---|
| | <$1,000 | $0–50,000 | $50–250,000 | up to $350,00 | up to $500,00 | up to $5M |
| Individual Development | x | x | | | | |
| Credit-Building Loans | x | | | | | |
| Secured Credit Cards | x | | | | | |
| Microloans | | x | | | | |
| Revolving Loan Funds | x | x | x | | | |
| SBA-Backed Bank Loans | | | | | | |
| 7(a) | | | x | x | x | x |
| 7(a) Express | | | | x | | |
| 7(a) Veterans Adv. | | | | x | | |
| 7(a) Community Adv. | | | x | | | |
| CapLines | | | | | x | |
| International Trade | | | | | | x |
| Export Working Capital Express | | | | | | x |
| CDC 504 | | | | | x | x |
| Disaster | | | | | | x |
| | Non-bankable | | | Bankable w/guarantees | | |

## INDIVIDUAL DEVELOPMENT ACCOUNTS (IDA)

Low-to moderate-income individuals can establish an Individual Development Account (IDA) to buy a first home, take college courses, receive post-secondary training or start or expand a small business. Savings are matched by community partners that can include businesses, agencies, financial institutions, foundations, faith organizations and state and local governments.

IDAs are available through:

- Community Action Agency of St. Louis County, Inc.
- United Way Greater St. Louis Asset-Building Collaborative

## CREDIT-BUILDING LOANS

According to the U.S. Small Business Administration, young firms rely heavily on external debt, receiving about three-quarters of their funds from banks via loans, credit cards and lines of credit.[9] According to myFICO.com, 60% of those with credit scores under 580 are delinquent on payments.[10] For those with poor credit or insufficient money management skills, this avenue may not be an option. Credit repair programs help participants build back their credit scores by helping them understand how to pay off their debts and granting them small loans that can be repaid to reflect positively on credit scores.

- Community Service League (CSL) Small-Dollar Lending Initiative helps low-income families access and use credit. CSL partners with Holy Rosary Credit Union to offer small loans to those with low credit scores. CSL recently acquired Next Step KC, a community-based nonprofit that works to provide affordable and appropriate financial services and products to low- to moderate-income Kansas City area residents.
- Justine PETERSEN offers a Credit Building Loan product called Save2Build. The product is offered both at a national level through a number of partners as well as across the Missouri service area.

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[9] "Small Business Finance: Frequently Asked Questions," sba.gov, U.S. Small Business Administration Office of Advocacy, Feb. 2014, retrieved June https://www.sba.gov/sites/default/files/2014_Finance_FAQ.pdf
[10]myFICO.com, *Credit Scores 101: What's a Good Credit Score Range*, Sept. 2016, retrieved June 2019, https://blog.myfico.com/whats-a-good-credit-score-range/.

The following organizations offer assistance and information on how to build or repair credit.

Statewide:

- Justine PETERSEN, statewide
- University of Missouri Extension (classes and branches throughout the state)

Kansas City-Northwest Missouri (KC-NWMO):

- Community Services League, Kansas City
- Consumer Credit Counseling Service of Greater Kansas City and Mid-Missouri
- Guadalupe Center, Kansas City
- Metropolitan Lutheran Ministries, Kansas City
- Next Step KC
- Rockhurst Prosperity Center, Kansas City
- Women's Employment Network, Kansas City

Northeast-Central Missouri (NEMO-Central):

- None reported

South:

- Consumer Credit Counseling Service of the Ozarks

St. Louis:

- Clearpoint Credit Counseling Solutions, St. Louis
- Grace Hill Women's Business Center, St. Louis

## SECURED CREDIT CARDS

Secured credit cards are another option for short-term funding and improving credit scores. Similar in function to conventional credit cards, secured cards require collateral in the form of a cash deposit. That way, if payments are not made, the bank can use the deposit to cover its losses. Using a secured credit card a little each month and paying it completely on time improves payment history and helps build credit without paying interest on a loan.

# MICROLOAN AND REVOLVING LOAN PROGRAMS

Most early-stage businesses rely on personal savings, friends and family for startup capital. For those with little or no savings, and no family resources, microloans can close the gap. Microloan programs provide very small, short-term loans at relatively low interest rates, usually to a startup company or self-employed person. Microloans generally rely on funds raised from partners to create a loan pool and a loan loss reserve fund. Stakeholders also provide funding for technical assistance (coaching and training) to the company to ensure that the company becomes stable enough to pay back the loan. Local banks can count donations toward their Community Reinvestment Act (CRA) responsibilities and are usually active investors.

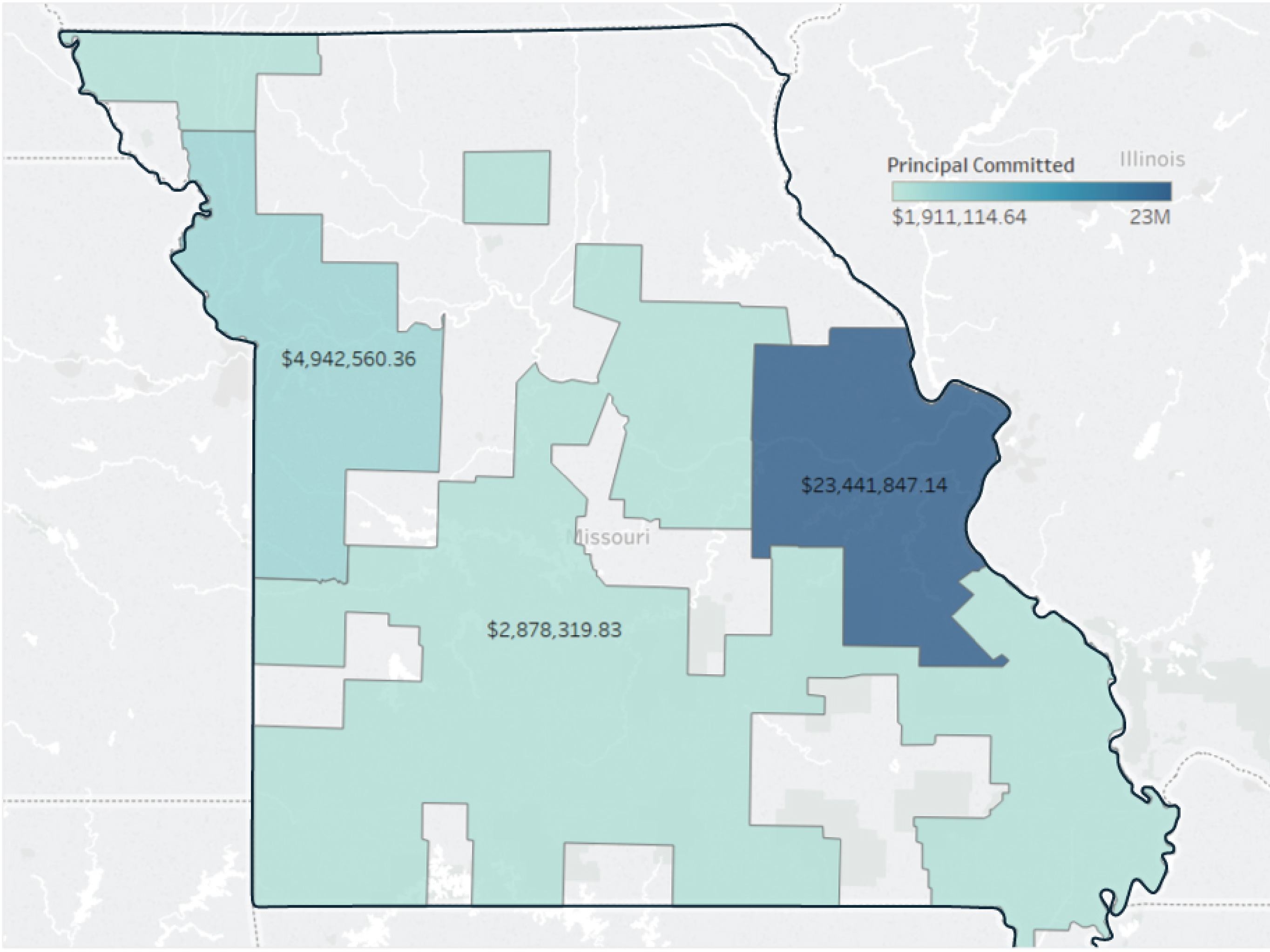
Specialized alternative loan funds funded through a variety of federal, state, local and private sources are available to support business growth. Funding levels often fall in the range of microloans. These programs receive an initial funding pool that is first distributed and then redistributed as the original loans are paid off. This means that the loan pool size fluctuates based on activity, frequently being fully dispersed. Loan criteria are set by the lending organizations and the investors in the original loan pool.

Some revolving loan funds that service early-stage businesses have niche criteria, provide funding in a small geography or to only certain types of businesses. Many are fully dispersed or inactive.

Justine PETERSEN is by far the largest player in microlending in the state, with almost 3,000 loans from 2014–2018. The organization made 516 loans in 2018. According to its CEO Robert F. Boyle, "It is our experience that demand consistently outpaces capital supply."

Boyle went on to note that microlending activities are entirely dependent upon the availability of local investment, and that a lack of loan funds in markets like Kansas City greatly reduces the ability to serve those markets. From 2014–2018, 75% of loans went to companies in the St. Louis area, 16% to Kansas-City based firms and 9% to firms in other parts of the state. As the map below shows, some parts of the state are not served at all. A lack of local funding limits the ability for the organization to serve specific markets.

*Figure 5: Justine PETERSEN Loan Origination, 2014-2018*




Statewide:

- Started with a $10 million loan pool, **Grow Missouri Loan** fund targets companies headquartered in Missouri with fewer than 500 employees. The loan amount is limited to the lower amount of 10% of the project funding, $3 million/project or $75,000 per new or retained job as a result of the project.
- Justine PETERSEN is one of the most active microlenders in Missouri. The program can offer microloans in any part of Missouri, but has been most active in the St. Louis region.
- The Missouri Agriculture and Small Business Development Authority offers several loan options:
    - The **Missouri Agribusiness Revolving Loan Fund** provides from $75,000–$112,500 in funds to support agribusiness in Missouri towns with populations of less than 50,000.
    - The **Animal Waste Treatment System Loan Program** finances waste treatment systems for independent livestock and poultry producers, up to 100% of the cost of an eligible system.

- Beginning farmers can borrow up to $543,800 to buy agricultural land, farm buildings, farm equipment and breeding livestock with the **Beginning Farmer Loan Program.** There is also a new **Down Payment Loan Program** that can be used in conjunction with the Beginning Farmer Loan.
- The **Alternative Loan Program,** which provides a maximum loan of $20,000 to those who are pursuing something different than a traditional rural operation, such as aquaculture, butchering, portable greenhouses, etc.

- **Midwest Small Business Finance** maintains a direct loan program, offering loans of $25,000–$150,000+ to healthy existing eligible small business concerns throughout the state. Historically, the program has served companies located in 20 northwest Missouri counties.
- **RMI** offers two loan programs:
  - The **Intermediary Relending Program** provides up to $250,000 in financing to for-profit businesses located in non-metro areas with a population below 25,000. Funds are used for fixed assets, inventory or working capital.
  - **RMI Direct** (formerly the Small Business Investment Fund Program) provides up to $250,000 in fixed-rate financing to for-profit and not-for-profit businesses. Funds are used for fixed assets, inventory or working capital.

KC-NWMO:

- **AltCap** was approved as an SBA microloan intermediary in 2017, giving the Kansas City community access to $5 million in microloans. This moved the region forward significantly in its quest to provide debt financing for early-stage companies. In 2016, AltCap announced two new loan funds focused on underserved businesses – **ArtCap Microloan Fund for Kansas City Artists** and the **Diversified Contractors Growth Fund** (DCFG). In May of 2019, AltCap launched the Kansas City Growth Fund, the first character-based microloan available in the area.
- LEAD Bank offers the **Civic Contractor Funding Program** in collaboration with Kansas City, Mo., to extend funding to successful bidders for city contracts. The program targets women-owned and other disadvantaged contracting companies.
- The **EDC of Kansas City Missouri** offers the following tools in partnership with banks. The borrower pays 10% of the total project costs, the EDC loan program pays 40% and the third-party lender pays 50%.
  - The **River Market Loan Program** provides up to $200,000 in financing for fixed assets and/or working capital to businesses located in the River Market/Columbus Park area.
  - The **EDC of KC Revolving Loan Fund** provides loans of up to $200,000 for fixed assets including equipment and real estate.

    - The Neighborhood Commercial Revolving Loan Fund, a city-initiated and funded program, is for businesses in Kansas City, Mo., neighborhoods in need of revitalization. Up to $150,000 is available for building acquisition and improvement and acquisition of machinery and equipment.
- Green Hills Rural Development provides funding to companies in Caldwell, Carroll, Chariton, Daviess, Grundy, Harrison, Linn, Livingston, Mercer, Putnam and Sullivan counties.
- Impacto Loan Fund, sponsored by the Hispanic Economic Development Corp., is a microloan program that averages between $1,500 and $25,000 per loan. About $230,000 has been distributed.
- Johnson County Missouri Economic Development Corp provides $4,000–$10,000 loans for startup or expanding companies that will result in the creation or retention of jobs.
- MO-KAN Revolving Loan Fund provides loan funds for businesses in Atchison, Brown and Doniphan counties in Kansas and Andrew, Buchanan, Clinton and DeKalb counties in Missouri (St, Joseph, Missouri) and the surrounding region. The loan funds may be used for the purchase of fixed assets such as land, buildings and equipment or working capital for renovations, expansions or inventory. The maximum amount of a loan is $200,000. Since its inception, this program has loaned more than $3 million, six times the original investment. In addition to the funds loaned directly from the RLF, the fund has leveraged more than $14.5 million from private sector lenders and small business owners.[11]
- WE-Lend, through OneKC for Women and its Women's Business Center, launched in 2015 with microloans geared to women. WE-Lend just received significant funding from Blue Valley Bank.

NEMO-Central:

- The city of Kirksville operates a revolving loan fund that was established to spur economic development. Original funding came from the Missouri Department of Economic Development.
- Lake of the Ozarks Regional Economic Development Council offers three other loan programs backed by Community Development Block Grant (CDBG) funds. The Action Fund, the Loan Guarantee Program and the Interim Financing Loan service companies in Camden, Miller and Morgan counties. Lake of the Ozarks Regional Economic Development Council also offers a microloan for businesses in Camden, Miller and Morgan counties. The maximum award is $100,000 or $15,000 per job created.
- Macon County Economic Development has a loan fund for businesses in that county that can provide up to $250,000 in financing for up to 10 years.

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[11] Data from Mo-Kan, retrieved July 2017, http://www.mo-kan.org/index.php/business/loan-programs.

- The **Mark Twain Revolving Loan Fund** is designed to provide gap financing to new and expanding businesses in the counties of Audrain, Macon, Monroe, Marion, Pike, Ralls, Randolph and Shelby. The fund can provide up to 30% of a project with a maximum values of $15,000. One job must be created for every $15,000 of loan funds. The Mark Twain Council of Governments administers the program, which was funded by the U.S. Department of Commerce Economic Development Administration.
- The **Meramec Regional Development Corporation** Revolving Loan Fund is designed to provide funds to small business in Crawford, Dent, Gasconade, Maries, Osage, Phelps, Pulaski and Washington counties. The maximum loan is $100,000 and one job must be created for every $20,000 in loan funds.

South:

- **Howell Oregon Co-op** offers a revolving loan fund with loans ranging in size. The maximum term is 10 years based on the assets being financing.
- **Intercounty Electric Cooperative** in Licking provides a revolving loan fund in the service area of Dent, Texas, Shannon and Gasconade counties.
- **Joplin Capital Corp.** makes loans of up to $50,000 to entrepreneurs who need help beyond traditional funding. The program is supported by local banks, the Joplin Area Chamber of Commerce and the city of Joplin. Companies must operate within specific low-to-moderate income census tracts.
- **Marshfield Micro Finance** program encourages the development and growth of business in the Marshfield community. Low interest loans are paired with mentoring from the local SCORE chapter.
- The **Ozarks Small Business Incubator Microloan** program is designed to provide seed capital and gap financing for startup and expanding companies in the West Plains area. Loans can be used for fixed assets, working capital, inventory, real estate and education/training. The minimum loan is $2,500 and the maximum is $25,000 for 80% of a project. Some of the funding for the program comes from the city of West Plains.
- **SEED$** is offered by the Southeast Economic Development Fund to small business loans for startup projects and purchase or expansion of existing businesses. The program serves an eight-county region in Southeast Missouri.
- **Se-Ma-No Electric Cooperative in Mansfield** began a revolving loan fund in 1995 to assist companies in the Se-Ma-No service area (parts of Webster, Douglas, Texas and Wright counties). Funding of up to $100,000 is available.
- The **South Central Ozark Regional Development Company** (SCORDC) hosts a microloan fund established by the South Central Ozark Council of Governments, which serves Douglas, Howell, Oregon, Ozark, Shannon and Texas counties. The loan fund was established through Title IX funds from the Economic Development Administration that

were matched with local dollars. At least 51% of the jobs created through the loan must go to low-to-moderate income persons and must go to businesses with fewer than five employees, including the owner. In addition to its microloan, SCORDC also sponsors a revolving loan program. One full time job must be created for every $10,000 in loan funds. The loan must be matched 2:1 and the maximum loan is $100,000.

- The Southeast Missouri Regional Planning and Economic Development Commission operates five funds, one backed by CDBG funding, one through Delta Regional Authority monies and three funded through the Department of Commerce EDA. Loans can be made to businesses in Bollinger, Cape Girardeau, Iron, Madison, Perry, St. Francois and Ste. Genevieve counties.
- Springfield Business Development Loan can support businesses that create jobs benefitting low-to-moderate income persons or removing slum or blight. The fund is capitalized through CDBG funds. The program targets companies with more than five employees. The city also offers a program that helps businesses that create jobs benefitting low-to-moderate income persons or removing slum or blight.
- White River Valley Electric Cooperative sponsors a rural development loan and grant program as well as an economic development loan program for companies in its service area in Southwest Missouri.
- The Forge, an SBA-backed microloan program based in Arkansas, is expanding its service area to include southern Missouri.

St. Louis:

- Boonslick Regional Planning Commission manages a revolving loan fund for entrepreneurs in Montgomery, Lincoln and Warren counties. Maximum loan is $150,000. Boonslick RPC also manages a microenterprise loan fund for entrepreneurs in Montgomery, Lincoln and Warren counties. Maximum loan is $25,000.
- The BOOST Loan Program, sponsored by the St. Louis Economic Council, is an alternative to the SBA 504 and can be used for real estate and/or equipment for businesses expanding in St. Louis County. Maximum loan is $500,000. The group also offers a Contractor Loan Guaranty for small contractors.
- St. Charles County EDC has a revolving loan fund for businesses in that county. Startup or existing businesses can apply for loans from $5,000 to $25,000. One full-time job must be created for every $10,000 in loan funds.
- St. Louis Local Development Co. offers loans for businesses located in the city of St. Louis. One full-time job must be created for every $10,000 in loan funds with a maximum loan of $150,000.

Electrical co-ops appear to be interested in becoming active in the revolving loan space. In addition to the two listed above that have established loans, the Macon Electric Cooperative is working to establish a revolving loan fund through the U.S. Department of Agriculture's Rural Economic Development Loan and Grant Program. The Farmer's Electric Cooperative, serving nine counties near Chillicothe, is also seeking to establish a fund through REDL, as is the Osage Valley Electric Cooperative serving seven west central Missouri counties.

The Northeast Missouri Electric Power Cooperative has been working with the Chariton Valley Electric Cooperative in Iowa and intends to create a revolving loan with the proceeds from that project.

*Figure 6: 2018 Missouri Micro and Revolving Loan Funds*

| Organization | Number of Loans Awarded | Value of Loans Awarded | Total Loan Pool |
|---|---|---|---|
| AltCap | 28 | $1,167,300 | Accepting applications |
| Boonslick Regional Planning Commission | | | $200K available |
| Civic Contractor Funding (LEAD Bank) | | | |
| Green Hills Rural Development | 0 | 0 | $500K available |
| Grow Missouri loan fund[12] | 0 | 0 | No funds available |
| HEDC Impacto Loan Fund | | | |
| Howell Oregon Electric Cooperative | 0 | 0 | No funds available |
| Intercounty Electric Cooperative | 0 | 0 | Accepting applications |
| Johnson Co EDC | 1 | $2,500 | $25K available |
| Joplin Capital Corp. | 0 | 0 | $100K available |
| Justine PETERSEN* | 516 | $6,396,312 | Not reported |
| KCMO EDC Neighborhood Commercial | 0 | 0 | Not reported |
| KCMO EDC Revolving Loan | 2 | $110,000 | $198K available |
| KCMO EDC River Market Loan | 2 | $195,000 | $556K available |
| Kirksville Revolving Loan | 0 | 0 | $200K available |
| Lake of the Ozarks Regional Economic Development Council | 0 | 0 | No funds available |
| Macon County Economic Development | | | Accepting applications |
| Mark Twain Revolving Loan Fund | 0 | 0 | $75K available |
| Marshfield Micro Finance | | | |
| Meramec Regional Development Corporation | 3 | $195,427 | $243K available |
| Midwest Small Business Finance | | | |
| MO AG Agribusiness Revolving Loan | 12 | $637,400 | Accepting applications |
| MO AG Animal Waste Treatment System Loan | 5 | $883,255 | Accepting applications |
| MO AG Alternative Loan | 107 | $1,323,676 | Accepting applications |
| MO AG Beginning Farmer and Down Payment | | | Accepting applications |

[12] Funding dependent upon annual legislative allocation.

| | | | |
|---|---|---|---|
| MO-KAN Revolving Loan | 6[13] | $5,725,400 | $250K available |
| Ozarks Small Business Incubator | 1 | $6,500 | $146K available |
| RMI Direct/Intermediary Relending | 2 | $249,680 | $3MM pool |
| SEED$ (Southeast Economic Development Fund) | 0 | 0 | $588MM available |
| Se-Ma-No Electric Cooperative | 0 | 0 | $300K available |
| South Central Ozark Regional Development Company Revolving Loan | 5 | $267,952 | $223K available |
| South Central Ozark Regional Development Company Microenterprise Loan | 7 | $107,127 | $138K available |
| Southeast Missouri Regional Planning and Economic Development Commission | 93 total all years | $822K total | $330K available |
| Springfield Business Development Loans | 8 | $297,965 | $600K available |
| St. Charles County EDC | | | |
| St. Louis EDC BOOST Loan Program | | | |
| St. Louis EDC Contractor Loan Guaranty | | | |
| St. Louis Local Development Co. | | | |
| WE-Lend | | | Accepting applications |
| White River Valley Electric Cooperative | | | |

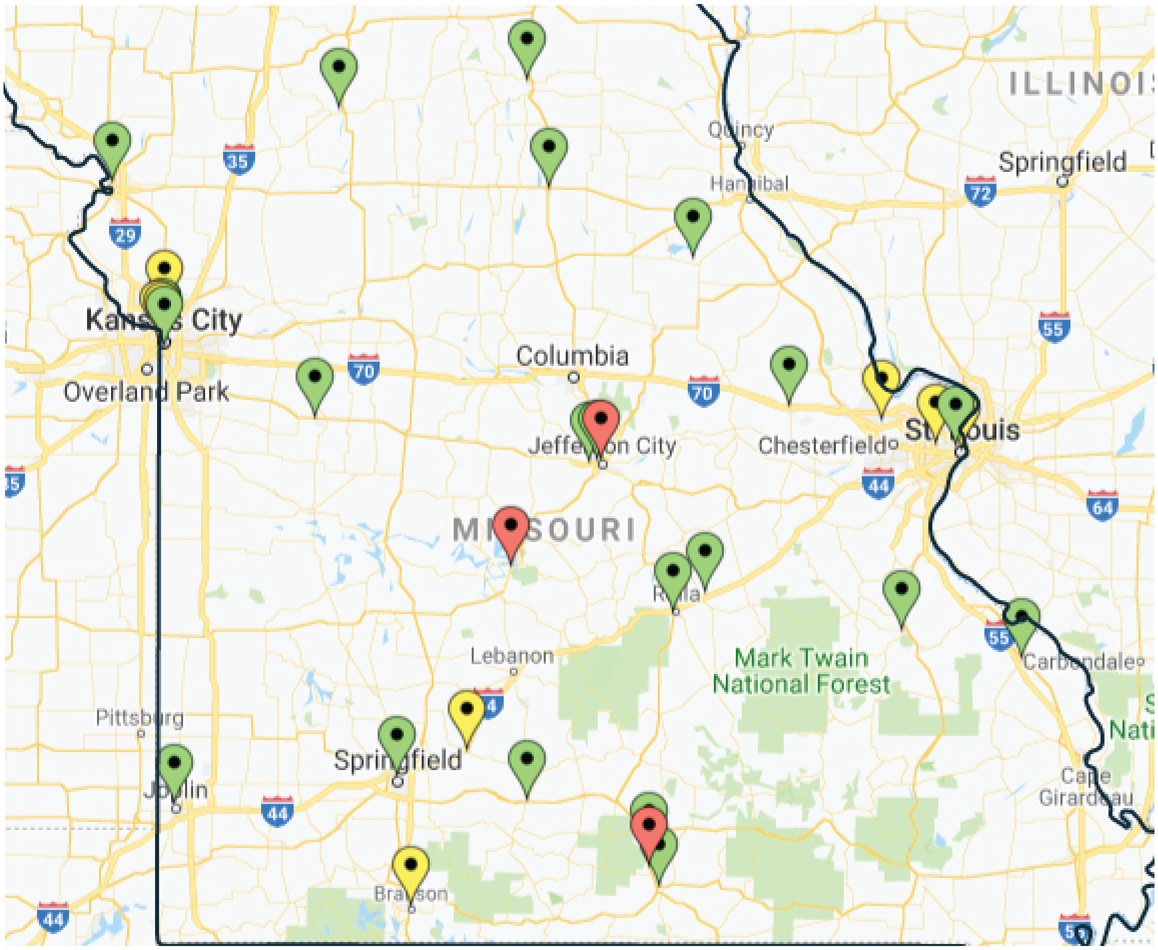
* The loan totals for Justine PETERSEN include only loans of less than $50,000. If the entire portfolio is considered, Justine PETERSEN handled 715 loans for a total of $18.6 million in 2018.

[13] Count may include Kansas companies.

## DISTRIBUTION OF LOAN PROGRAMS

Missouri's microlending and revolving loan programs are fairly evenly distributed throughout the state. The chart below indicates those funds that are accepting applications (green); those organizations that currently have no funds to lend (red); and those for whom no data was reported (yellow).

*Figure 7: Micro and Revolving Loan Program Status*

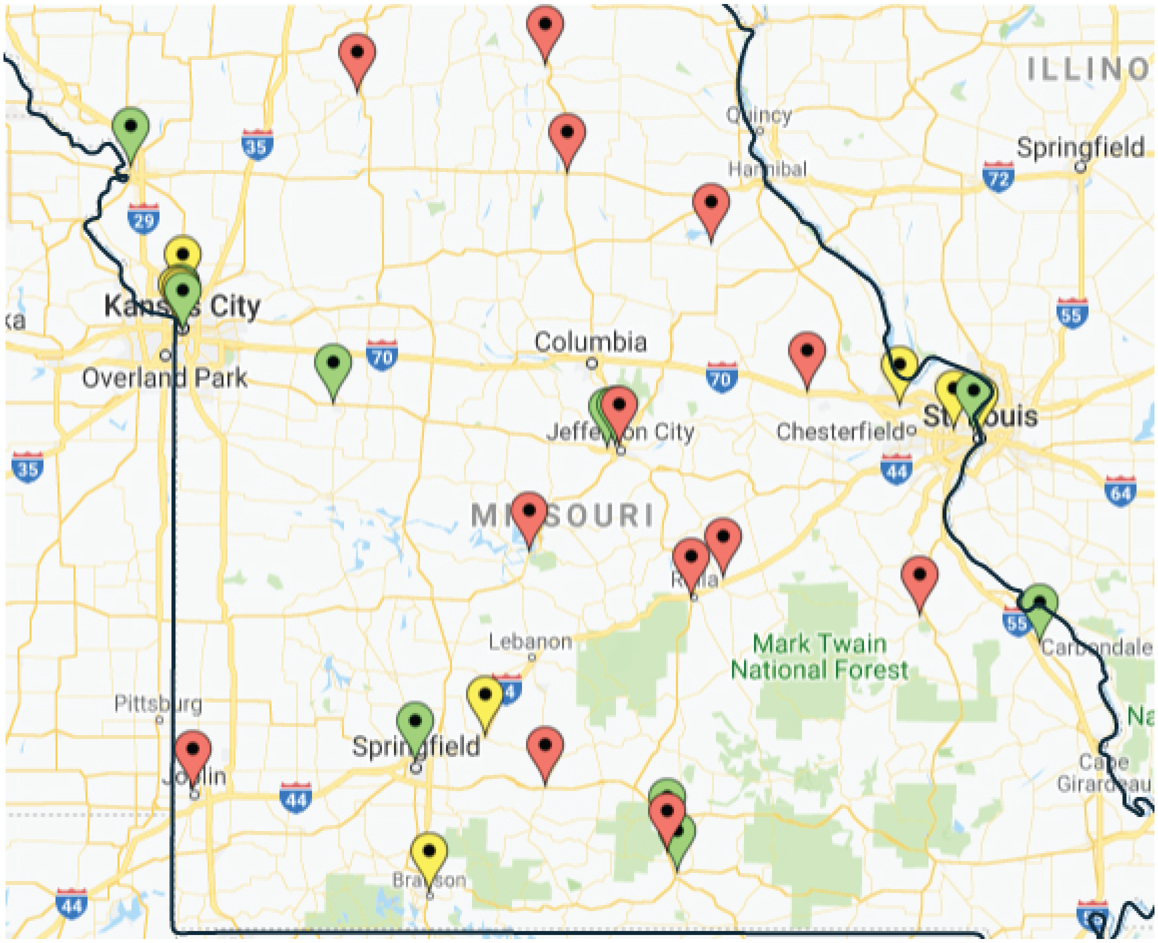



Funds that are accepting applications
Organizations that currently have no funds to lend
No data reported

## ACTIVITY OF LOAN PROGRAMS

The actual activity of the loan programs paints a different picture. The chart below maps those organizations that actually made a loan in 2018 (green); those that did not (red); and those for whom no data was reported (yellow). In this depiction, it is clear that the majority of micro and revolving loan activity occurs in urban parts of the state. Revolving loans exist in other parts of the state, and have funding, but are not being utilized.

*Figure 8: Micro and Revolving Loan Program Activity*




Organizations that made a loan in 2018
Organizations that did not make a loan
No data reported

# OTHER FUNDING PROGRAMS

- Missouri receives funding from the **U.S. Environmental Protection Agency** to offer Brownfields assessments, revolving loans and cleanup grants for areas contaminated by petroleum, hazardous and controlled substances and mine-scarred lands.
- Grants are also available through the **Workforce Investment Boards** in Missouri. These "on the job" training funds are available to businesses to assist with developing the skill sets needed within their talent pool. This funding can pay for both salary and training while employees learn new skills.
- The **Missouri Department of Economic Development** offers financial assistance through grants to companies to attend international trade shows to expand markets.
- The **Missouri Linked Deposit Program** is administered by the Missouri State Treasurer's Office and provides investment deposits to state-approved banks that have made loans to businesses headquartered and operating in Missouri. The funds are invested by the state at a significantly reduced interest rate. That reduction in interest is passed on to the business to lower their loan interest rate by up to 2 to 3%. Loan sizes range between $90,000 and $250,000.
- **Greater Kansas City Local Initiatives Support Corporation (LISC)** also offers funding through the Kiva Zip online loan crowdfunding platform.

# SBA-BACKED LENDING

The SBA does not make direct loans to businesses, but offers a range of guarantees that help banks provide loan access to small businesses; 7(a) and 504 are the most commonly used tools. These SBA guarantees help mitigate risk on the part of the banks and help make credit available to small businesses that otherwise may not have access. Many Missouri banks partner with the SBA to offer these loan products.

## 7(A)

SBA 7(a) loans are the most common type of SBA financing. These loans go up to $5 million and can be used for working capital, to refinance debt, or to buy a business, real estate or equipment. SBA 7(a) loans are right for most businesses looking to finance their working capital needs. These loans are what most people are referring to when they ask about SBA loans, and can be used for almost any business purpose. SBA loans are popular because of their longer repayment terms and lower interest rates, which make 7(a) loans one of the most affordable access to capital solutions.

## 7(A) EXPRESS LOAN PROGRAM

The SBA Express program features an accelerated turnaround time for SBA review. It may be used for revolving lines of credit (revolving plus term out can only have a maturity up to 10 years) or for a term loan. The loan program follows the small loan 7(a) program's guidelines and requirements. Terms normally depend on ability to repay, but generally are 5-10 years for working capital and machinery and equipment (not to exceed life of equipment) and up to 25 years for commercial real estate. When loan proceeds are used for multiple purposes maturity may be a blended maturity. The express program has a maximum loan amount of $350,000.00 with a 50% SBA guaranty.

## 7(A) VETERANS ADVANTAGE

The Veterans Advantage program allows fees to be waived for veterans in the SBA Express Loan Program. Veterans must provide specific documentation regarding service. The program applies to veterans and current spouses, service-disabled veterans, transitioning active duty military members and current spouses, reservists and National Guard, widows of active duty service members who died in service or widowed spouses of veterans who died of a service-connected disability.

## 7(A) COMMUNITY ADVANTAGE LOANS

The Community Advantage Loans are SBA loans designed to help businesses in underserved markets get access to financing. These programs are available to borrowers who meet the SBA eligibility criteria but are not able to qualify for a standard SBA 7(a) loan because of low collateral or other reasons.

Under the Community Advantage Program, the SBA offers the same expedited application and approval process that comes with an SBA Express loan, but they'll guarantee 85% of loans between $50,000 and $250,000. This further reduces the risk to lenders and gives them more motivation to provide these loans over the SBA Express program.

## CAPLINES LOAN PROGRAM

The SBA CAPLines program has four SBA loan or line of credit products that are designed to provide up to $5 million to help small businesses meet their short-term and cyclical working capital needs. SBA CAPLines are best for businesses that need a revolving line of credit to make recurring payments or to prepare for unexpected expenses. SBA CAPLines can be issued as stand-alone products, or they can be are offered to borrowers in conjunction with a traditional SBA 7(a) loan or a CDC/SBA 504 loan.

## INTERNATIONAL TRADE LOANS

The SBA International Trade Loans are designed to help small businesses enter and expand into international markets. The IT loans offer a combination of fixed asset, working capital and debt refinancing with the SBA guaranteeing up to 90% of to the total loan amount. Loans can go up to $5 million. Applicants must meet 7(a) loan eligibility requirements and establish that the loan will help the business expand or develop an export market, or show the loan will help the business be more competitive vis-à-vis imports. The business can be a component producer of the end product.

## EXPORT WORKING CAPITAL EXPRESS LOANS

The Export Working Capital Express Loan allows participating lenders to use their own forms, procedures and analyses. Loans can go up to $500,000 and must be used to enhance a company's export development. To be qualified for an export loan, the business must have been exporting for at least two years. These loans cannot be used for importing.

## CDC/SBA 504 LOANS

504 loans provide long-term financing for major fixed assets such as equipment or real estate. Funds are accessed through revolving loan funds established at Certified Development Companies.[14] The 504 program distributes the loan among three parties: the business owner contributes a minimum of 10%, a conventional lender (typically a bank) puts up 50%, and the CDC puts up the remaining 40%. The maximum amount of the loan is $5 million ($5.5 million for manufacturers and some energy-related businesses). If the borrower defaults, the private sector lender is paid off first, reducing the risk to the lender. The portion of the loan paid by the CDC is secured with a second lien backed by a 100% SBA-guaranteed debenture.

CDC/SBA 504 loans require that the business occupy at least 51% of the commercial space, which allows the firm to rent out 49% of the building to tenants. Small businesses must meet the SBA's basic eligibility requirements.

## SBA DISASTER LOANS

SBA Disaster loans are SBA loans used for recovery from a declared physical or economic disaster. Each disaster loan can be used differently, and you can apply for multiple types of loans at the same time to meet your needs. These are used for businesses that have been negatively impacted by a disaster and those that can provide evidence of the negative impact. Economic disaster injury loans are offered on a needs basis for businesses that have lost revenues due to disasters. These loans can cover operating expenses.

Federal Emergency Management Agency (FEMA) offers grants under its Other Needs Assistance program that cover uninsured losses for furniture, appliances and other essential personal property and even vehicles. Some survivors may not be considered for these grants unless they complete and return the SBA loan application. FEMA grants do not have to be repaid.

[14] Certified Development Companies (CDCs) are nonprofit corporations certified and regulated by the SBA that work with participating lenders to provide financing to small businesses.

## SBA-BACKED LENDING IN MISSOURI

The state of Missouri is served by two SBA district offices. The Kansas City office services 61 counties in western Missouri and 28 counties in eastern Kansas. The St. Louis office serves the 54 counties in the eastern part of Missouri.

*Figure 9: SBA-Backed Loans FY18*

| Loan Program | Number of Loans | Value of Loans |
|---|---|---|
| 7(a) | 939 | $438,418,200 |
| 504 | 110 | $68,496,000 |
| Total | 1049 | $506,914,200 |

For fiscal year 2018, the two offices combined to support 1,049 7(a) and 504 loans valued at more than $506 million in the two districts.[15]

*Figure 10: Top 25 SBA Lenders, FY2018 (KC District Office)*

| Name | Number of Loans | Value of Loans |
|---|---|---|
| U.S. Bank | 69 | $4,334,200 |
| OakStar Bank | 64 | $38,356,700 |
| Rural Missouri, Inc. (RMI) | 38 | $27,347,000 |
| Guaranty Bank | 34 | $11,864,400 |
| Simmons Bank | 32 | $7,327,100 |
| Core Bank | 25 | $24,220,300 |
| The Bank of Missouri | 24 | $6,629,600 |
| Wells Fargo Bank | 18 | $10,906,200 |
| Arvest Bank | 18 | $6,128,600 |
| CrossFirst Bank | 17 | $14,184,900 |
| Independence Bank | 17 | $2,150,000 |
| Commerce Bank | 16 | $5,035,300 |
| Central Bank of the Midwest | 15 | $5,429,100 |
| UMB Bank | 14 | $6,683,500 |
| Heartland Business Capital | 13 | $9,706,000 |
| Community Banks of Colorado | 12 | $13,088,000 |
| Bank of the West | 12 | $1,516,500 |
| Mid-Missouri Bank | 11 | $1,341,433 |
| INTRUST Bank | 10 | $4,618,700 |
| Celtic Bank Corporation | 9 | $5,946,600 |
| Landmark National Bank | 9 | $3,604,700 |
| Legacy Bank & Trust Company | 9 | $1,906,700 |
| Live Oak Banking Company | 8 | $10,750,000 |
| Capitol Federal Savings Bank | 8 | $1,423,300 |
| United Midwest Savings Bank | 8 | $1,215,000 |

[15] SBA Kansas City and St. Louis District offices, reports pulled July 2019. Fiscal year October 1, 2017 – September 30, 2018. Kansas loans have been omitted from the data.

*Figure 11: Top 25 SBA Lenders, FY2018 (STL District Office)*

| Name | Number of Loans | Value of Loans |
|---|---|---|
| U.S. Bank, N.A. | 46 | $1,492,700 |
| St. Charles County Economic Development Corporation | 25 | $19,433,000 |
| The Bank of Missouri | 24 | $4,165,500 |
| Midwest Regional Bank | 22 | $11,060,000 |
| American Bank of Missouri | 20 | $14,293,600 |
| Independence Bank | 13 | $1,840,000 |
| St. Louis Bank | 10 | $10,265,500 |
| First Home Bank | 10 | $2,454,400 |
| The Callaway Bank | 10 | $2,094,500 |
| Enterprise Bank & Trust | 9 | $3,567,500 |
| BancorpSouth Bank | 8 | $11,788,400 |
| Busey Bank | 8 | $4,312,600 |
| Regions Bank | 7 | $4,281,300 |
| Simmons Bank | 6 | $2,780,000 |
| First Midwest Bank of the Ozarks | 5 | $1,265,200 |
| Fortune Bank | 4 | $6,191,500 |
| Small Business Growth Corporation | 4 | $2,268,000 |
| Midwest BankCentre | 3 | $3,194,000 |
| Bank of America, N.A. | 3 | $1,481,900 |
| Hawthorn Bank | 3 | $1,186,000 |
| STL Partnership CDC | 3 | $5,850,000 |
| Newtek Small Business Finance, Inc. | 2 | $2,351,500 |
| Belgrade State Bank | 2 | $1,249,000 |
| St. Louis Local Development Company | 2 | $768,000 |
| Enterprise Development Corporation | 2 | $610,000 |

## COMMERCIAL LENDERS

Banks, savings and loans and credit unions are interested in funding companies with a proven track record of sustainable income and/or assets that can be pledged as collateral. Commercial lenders also offer lines of credit to proven companies, allowing those companies to access credit on an as-needed basis. Commercial banks play a key role in the small business and entrepreneurship landscape, providing a range of financial services in addition to capital.

These services include credit card processing, checking and savings, valuations and mergers/acquisition advice.

A lending study conducted by the U.S. SBA[16] provides statistics on small business lending levels by savings banks, savings and loan associations and commercial banks by specific geographies. In the study, loan definitions are based on loan size, not the size of the business, identifying small business loans as loans of less than $1 million and microloans as less than $100,000 (definitions for this study only).

According to that study, lenders headquartered in Missouri provided 237,679 loans defined as small business loans in 2016. About 60% were in the $100,000 to $1 million range, the rest were less than $100,000 (microloans). The average small business loan was $89,241 and the average microloan was $21,099.

In 2016, Missouri lenders ranked fifth in number and value of microloans of less than $100,000 among the west north central segment of the Midwest, as defined by the U.S. Census. (Note: Ohio registered more than 3 million loans from Citibank and JPMorganChase; South Dakota registered more than 3 million loans from Citibank and Wells Fargo. Other states did not have any one bank making more than 1 million loans.)

*Figure 12: Missouri Ranks No. 5 in Number of Loans by Commercial Lenders*

[16] Source: U.S. Small Business Administration, Office of Advocacy, from Call Report Data, June 2016. Retrieved July 2019 https://www.sba.gov/advocacy/small-business-lending-united-states-2016

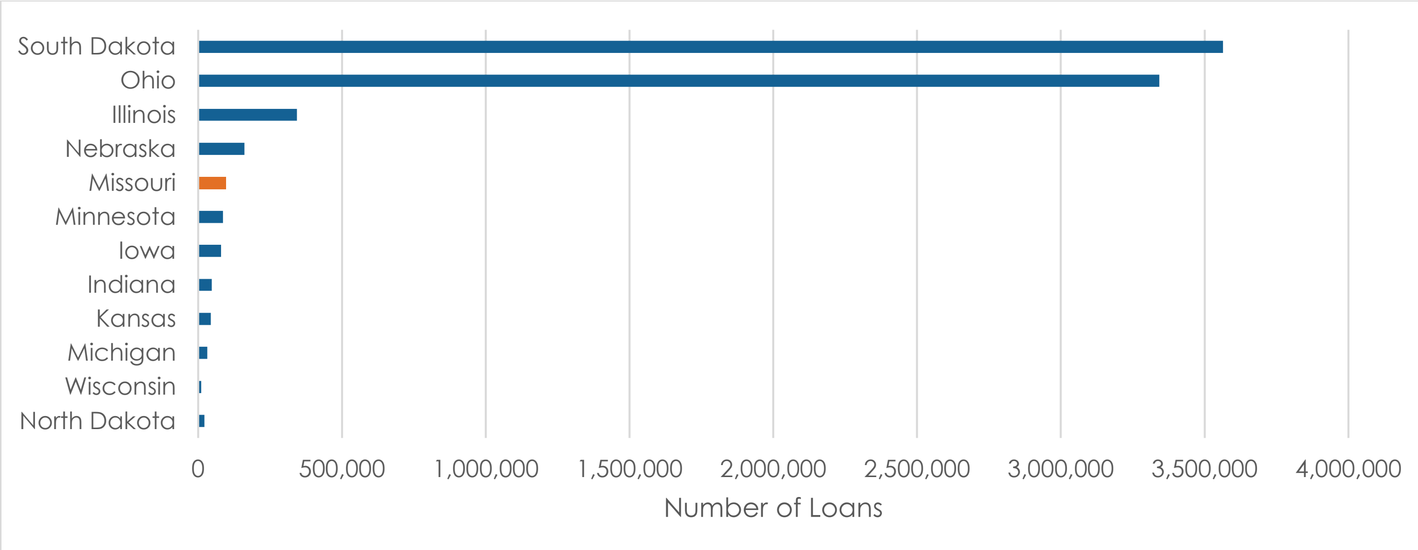
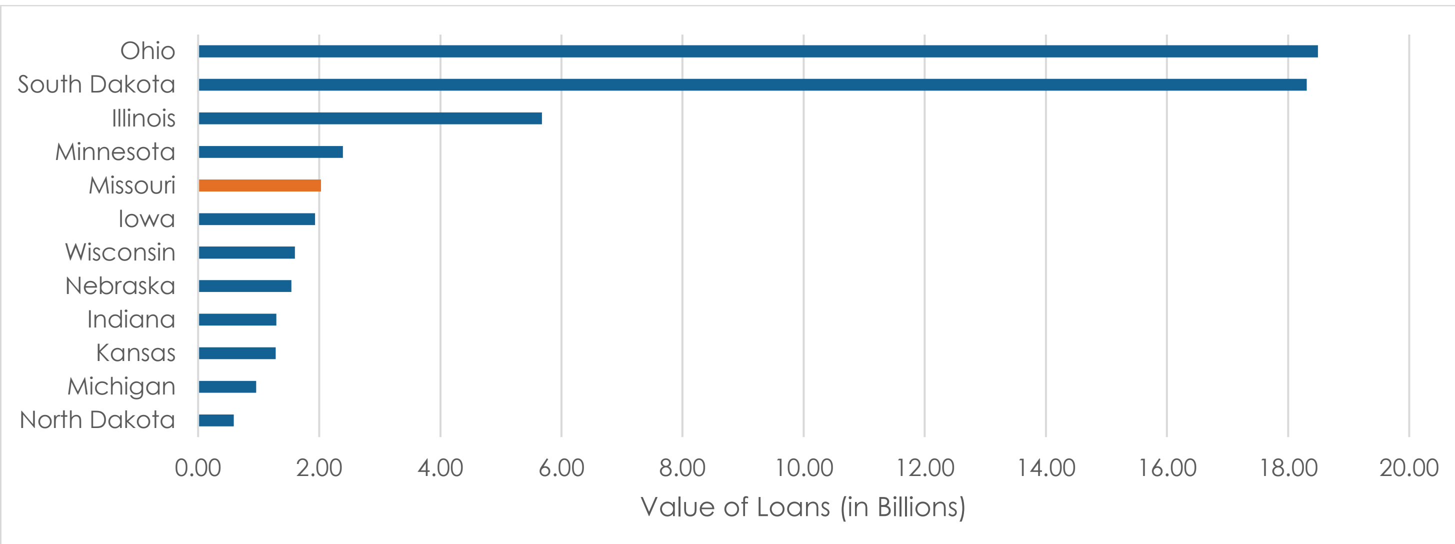



*Figure 13: Missouri Ranks No. 5 in Value of Loans by Commercial Lenders*




Four Missouri banks made the national list of top providers of small business loans ($1 million or less) in 2016: Central Bancompany (19th), Commerce Bancshares (45th), UMB Financial Corporation (69th) and Scottrade Bank (75th). The same four were included as top providers of loans less than $100,000.[17]

*Figure 14 and 15: Top Missouri Banks at Each Loan Level, 2016*

| Loans of less than $100,000 | | | |
|---|---|---|---|
| **Bank** | City | Number of Loans | Value of Loans |
| **St. Clair County State Bank** | Osceola | 424 | $20,186,000 |
| **Community Bank of El Dorado Springs** | El Dorado Springs | 358 | $17,526,000 |

[17] U.S. Small Business Administration Office of Advocacy, Call Report Data, June 2016, retrieved July 2019, https://www.sba.gov/advocacy/small-business-lending-united-states-2016.

| | | | |
|---|---|---|---|
| Security Bank of the Ozarks | Eminence | 364 | $26,220,000 |
| The Citizens-Farmers Bank of Cole Camp | Cole Camp | 396 | $15,698,000 |
| The Maries County Bank | Vienna | 1,095 | $26,461,000 |
| The Nodaway Valley Bank | Maryville | 1,669 | $52,524,000 |
| Metz Banking Company | Nevada | 302 | $18,411,000 |
| Bank of Monticello | Monticello | 408 | $12,119,000 |
| Farmers Bank of Northern Missouri | Unionville | 609 | $15,366,000 |
| The Corner Stone Bank | South West | 478 | $11,570,000 |
| Carroll County Trust Company of Carrollton | Carrollton | 265 | $13,580,000 |
| Security Bank of Southwest Missouri | Cassville | 309 | $13,735,000 |

| Loans of $100,000 - $1 million | | | |
|---|---|---|---|
| Bank | City | Number of Loans | Value of Loans |
| Missouri Bank and Trust Company of Kansas | Kansas City | 488 | $326,947,000 |
| Community Bank of Raymore | Raymore | 243 | $71,009,000 |
| United Bank of Union | Union | 342 | $54,647,000 |
| Community State Bank of Missouri | Bowling Green | 158 | $37,681,000 |
| Peoples Bank | Cuba | 117 | $34,983,000 |
| Central Bank of Lake of the Ozarks | Osage Beach | 457 | $88,720,000 |
| People's Bank of Seneca | Seneca | 121 | $36,197,000 |
| First Midwest Bank of Poplar Bluff | Poplar Bluff | 322 | $76,401,000 |
| Commercial Bank | Saint Louis | 140 | $42,275,000 |
| Bank of Sullivan | Sullivan | 222 | $70,381,000 |
| Bremen Bank and Trust Company | Hazelwood | 158 | $40,481,000 |
| First Community National Bank | Cuba | 125 | |
| Bank of Hillsboro | Hillsboro | 83 | |
| Citizens Bank | New Haven | 134 | |
| Triad Bank | Frontenac | 228 | |

# FUNDING EARLY-STAGE LOAN PROGRAMS

Loan products that support non-bankable clients have been created over time through a variety of methods. Below are examples of different mechanisms that can help to build and sustain these important capital pools.

## U.S. TREASURY PROGRAMS

### STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)

The SSBCI is a federal program administered by the Department of the Treasury that was funded with $1.5 billion to strengthen state programs that support private financing to small businesses and small manufacturers in 2010. These funds were distributed to the states utilizing a population-based formula.

Each state divided their funds, putting some into a loan program and some into an equity-capital pool. Missouri was allocated $26,930,294 and used it to support the GROW Missouri loan fund and the IDEA (Innovation, Development and Entrepreneurship Advancement) Fund, administered by the Missouri Technology Corporation. Companies that access the funds must leverage the funds through matching investments.

The SSBCI was a one-time program of limited duration. The authorities and duties of the Secretary of Treasury to implement and administer the program terminated in September 2017. Although there may not be any additional funds provided through this program, it is referenced here because of the amount of funding that it released into the market and the amount of leveraged match dollars generated from the private sector. As loaned and invested funds are recovered, these two funds will continue.

### COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) FUND

The CDFI Fund was established by the Riegle Community Development and Regulatory Improvement Act of 1994 to promote economic revitalization in low-income communities. The purpose of the CDFI Fund is to use federal resources to invest in CDFIs and to build their capacity to serve low-income people and communities that lack access to affordable financial products and services. CDFIs may use the funds to pursue a variety of goals, including:

- To promote economic development, develop businesses, create jobs and develop commercial real estate;
- To develop affordable housing and to promote homeownership; and
- To provide community development financial services, such as basic banking services, financial literacy programs and alternatives to predatory lending.

Community Development Financial Institutions (CDFIs) are private-sector, financial intermediaries with community development as their primary mission. Although CDFIs share a common mission, they have a variety of structures and development lending goals.

There are several basic types of CDFIs:

1) Community development banks and community development credit unions supply underserved markets with traditional retail banking services like savings accounts and personal loans;
2) Microenterprise funds provide small amounts of business capital to small scale entrepreneurs;
3) Community development loan funds lend to growing businesses and real estate development entities;
4) Community development corporation-based lenders and investors; and
5) Community development venture funds provide equity and management expertise to small, often minority-owned businesses that promise rapid growth.

All are market-driven, locally controlled, private-sector organizations that are focused on markets not served or underserved by mainstream financial institutions.[18]

The CDFI Fund provides two types of monetary awards to CDFIs: Financial Assistance awards and Technical Assistance awards.

**Financial Assistance (FA) Awards**: The CDFI Fund makes awards of up to $2 million to certified CDFIs under the FA Awards Program. A CDFI may use the award for financing capital, loan loss reserves, capital reserves or operations. FA awards are made in the form of equity investments, loans, deposits or grants, and the CDFI is required to match its FA award dollar-for-dollar with non-federal funds of the same type as the award itself. This requirement enables CDFIs to leverage private capital to meet the demand for affordable financial products and services in economically distressed communities.

**Technical Assistance (TA) Awards**: TA Awards provide grants to certified CDFIs and established entities seeking to become certified (i.e., emerging CDFIs) to build their capacity to provide affordable financial products and services to low-income communities and families. For example, awardees can use TA funds to purchase equipment, for consulting or contracting or to pay salaries and benefits for certain personnel. The CDFI Fund makes awards of up to $125,000 under the TA Awards Program.

To be eligible for an FA award, a CDFI must be certified by the CDFI Fund before it applies for the award. The following are certified, local CDFIs in Missouri:[19]

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[18] CDFI Coalition, *What Are CDFIs?,* 2015, retrieved June 2019, http://www.cdfi.org/about-cdfis/what-are-cdfis.

[19] List of Certified Community Development Financial Institutions as of February 2019, retrieved June 2019,

KC-NWMO:
AltCap, Kansas City
Central Bancshares of Kansas City, Inc., Kansas City
Central Bank of Kansas City, Kansas City
Guadalupe Centers Federal Credit Union, Kansas City
Holy Rosary Credit Union, Kansas City
Impacto Fund, Inc., Kansas City
United Consumers Credit Union, Independence

NEMO-Central:
Horizon Credit Union, Macon
Northeast Regional Credit Union, Hannibal
River Region Credit Union, Jefferson City
Riverways Federal Credit Union, Rolla

South:
Assemblies of God Credit Union, Springfield
Century Bancshares, Inc., Gainesville
Century Bank of the Ozarks, Gainesville
Community Financial Credit Union, Springfield
CU Community Credit Union (Multipli Credit Union), Springfield
Legacy Bank & Trust Company, Plato
Ozarks Heritage Financial Group, Gainesville
South Central Missouri Credit Union, Willow Springs

St. Louis:
1st Financial Federal Credit Union, Wentzville
Alliance Credit Union, Fenton
Gateway Community Development Fund, Inc., St. Louis
Great Rivers Community Capital, St. Louis
International Institute CDC, St. Louis
St. Louis Community Credit Union, St. Louis
Technical Assistance Corporation, St. Louis
UBC Credit Union, St. Louis

Of the 27 certified CDFIs in Missouri, only 12 received financial assistance awards in the past five years.[20] Many communities utilize this mechanism to fund microloan programs and other funding

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https://www.cdfifund.gov/Documents/CDFI%20List%202-25-2019_Final.xlsx.

[20] Data from CDFI Fund, retrieved June 2019, https://www.cdfifund.gov/awards/state-awards/Pages/state-result.aspx?state=MO&Name=Missouri.

pools for small businesses. The following lists those that received an award, the year and the amount.

*Financial Assistance Awards*

KC-NWMO:

| | | |
|---|---|---|
| Central Bancshares of KC | 2014 | $1,088,666 |
| Central Bancshares of KC | 2015 | $759,334 |
| AltCap | 2017 | $686,500 |
| Central Bancshares of KC | 2017 | $826,905 |

NEMO-Central:

| | | |
|---|---|---|
| River Region Credit Union | 2014 | $1,763,700 |
| Horizon Credit Union | 2016 | $1,605,000 |
| River Region Credit Union | 2017 | $686,500 |

South:

| | | |
|---|---|---|
| Assemblies of God | 2014 | $1,927,900 |
| Multipli Credit Union | 2015 | $1,988,750 |
| Century Bancshares | 2017 | $580,405 |
| Ozarks Heritage Financial Group | 2017 | $930,405 |
| Century Bancshares | 2018 | $850,000 |
| Ozarks Heritage Financial Group | 2018 | $950,000 |

St. Louis:

| | | |
|---|---|---|
| Alliance Credit Union | 2017 | $826,905 |
| Great Rivers Community Capital | 2017 | $1,006,905 |
| International Institute CDC | 2017 | $274,000 |
| St. Louis Community Credit Union | 2017 | $1,096,905 |
| Great Rivers Community Capital | 2018 | $1,125,000 |

In addition, six CDFIs in Missouri received technical assistance awards in the past five years, which can be used for counseling, coaching, assistance and key organizational salaries.

*Technical Assistance Awards*

| | | |
|---|---|---|
| International Institute CDC | 2014 | $119,836 |
| Northeast Regional Credit Union | 2014 | $122,300 |
| UBC Credit Union | 2015 | $112,865 |
| Guadalupe Centers Federal Credit Union | 2017 | $111,671 |
| Rise Community Development | 2017 | $124,600 |
| UBC Credit Union | 2017 | $115,445 |

## NEW MARKETS TAX CREDITS

The New Markets Tax Credit Program (NMTC) was established by Congress in 2000 to spur new or increased investments into operating businesses and real estate projects located in low-income communities. The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). (Note: An organization that is currently certified as a CDFI by the CDFI Fund or designated as a Specialized Small Business Investment Company by the Small Business Administration automatically qualifies as a CDE.)

The credit totals 39% of the original investment amount and is claimed by the corporate investor over a period of seven years. The CDE uses the equity investment made by the corporate investor to finance qualified low-income community businesses (i.e., operating businesses located in a low-income community or a development entity with a real estate development being built in a low-income community) by providing flexible financing with better rates and terms than conventional debt financing.

There are 364 CDEs in Missouri. [21]

[21] Sean Lowry, *Community Development Financial Institutions (CDFI) Fund: Programs and Policy Issues*, Jan. 2018, retrieved June 2019, https://fas.org/sgp/crs/misc/R42770.pdf.

The following have received NMTC allocations in the past five years:[22] All are located in Kansas City or St. Louis. Those organizations that received NMTC allocations, the year and the amount of the award, are listed below.

KC-NWMO:

| | | |
|---|---|---|
| Central Bank of Kansas City | 2014 | $60,000,000 |
| CBKC CDC | 2016 | $80,000,000 |
| Travois New Markets | 2016 | $50,000,000 |
| AltCap | 2017 | $55,000,000 |
| CBKC CDC | 2017 | $55,000,000 |
| CBKC CDC | 2018 | $50,000,000 |

St. Louis:

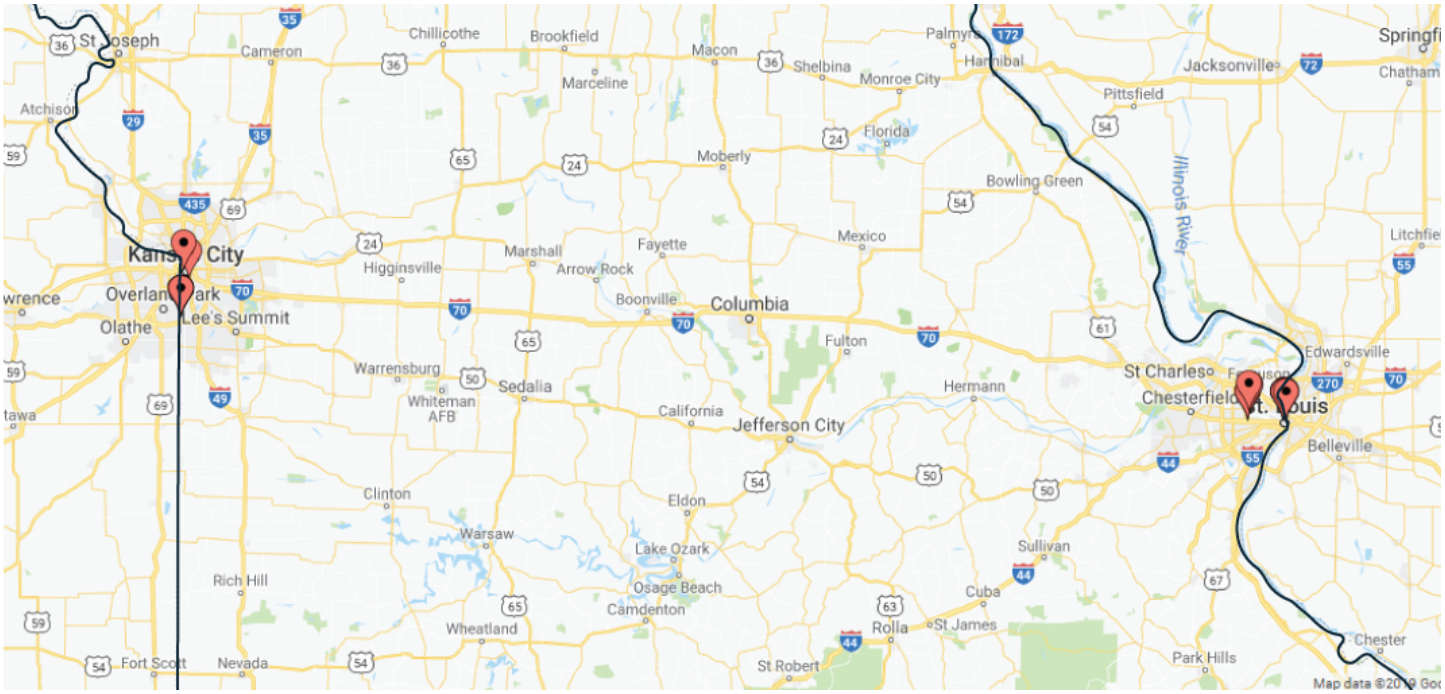
| | | |
|---|---|---|
| Enterprise Financial CDE (St. Louis) | 2014 | $65,000,000 |
| Heartland Regional Investment Fund | 2014 | $30,000,000 |
| MBS Urban Initiatives CDE | 2014 | $55,000,000 |
| Midwest Industrial Redevelopment Fund | 2014 | $50,000,000 |
| St. Louis Development Corp. | 2014 | $45,000,000 |
| USBCDE | 2014 | $55,000,000 |
| MBS Urban Initiatives CDE | 2016 | $75,000,000 |
| St. Louis Development Corp. | 2016 | $75,000,000 |
| St. Louis Development Corp. | 2017 | $35,000,000 |
| USBCDE | 2017 | $70,000,000 |
| MBS Urban Initiatives | 2018 | $60,000,000 |
| Midwest Industrial Redevelopment Fund | 2018 | $60,000,000 |
| St. Louis Development Corp. | 2018 | $35,000,000 |
| USBCDE | 2018 | $70,000,000 |

The NMTC Program has traditionally been used by CDEs to finance significant capital investments by established operating businesses (including some second stage enterprises) and catalytic real estate development projects that create jobs, remove blight and generally stimulate the local economy. Typically, the investments or projects financed by the CDEs represent at least $5 million or more; however, some CDEs use their allocation of tax credits to capitalize loan funds allowing it to provide flexible financing from $500,000 to $3,000,000 to operating businesses or real estate development entities.

[22] Data from CDFI Fund, retrieved June 2019, https://www.cdfifund.gov/awards/state-awards/Pages/state-result.aspx?state=MO&Name=Missouri.

Reporting data does not include how much of the allocations were used for microlending vs. real estate investment. A study in 2008 showed that about 62% of NMTC projects were real estate investments. [23]

*Figure 16: Location of New Market Tax Credit Allocations in Missouri*




## BANK ENTERPRISE AWARD PROGRAM

The Bank Enterprise Award Program (BEA Program) was created in 1994 to support FDIC-insured financial institutions around the country that are dedicated to financing and supporting community and economic development activities. The BEA Program complements the community development activities of insured depository institutions (i.e., banks and thrifts) by providing financial incentives to expand investments in CDFIs and to increase lending, investment and service activities within economically distressed communities.

The BEA Program provides formula-based grants based on activities within three categories:

- CDFI Related Activities: Equity investments, equity-like loans, grants, loans, deposits/shares and technical assistance to qualified CDFI partners
- Distressed Community Financing Activities: Affordable home mortgage loans, affordable housing development loans, small business loans, home improvement loans, education loans and commercial real estate loans
- Service Activities: Deposits, community services and financial services

[23] Lauren Lambie-Hanson, "Addressing the Prevalence of Real Estate Investments in the New Markets Tax Credit Program, Federal Reserve Bank of San Francisco, 2008, retrieved July 2019, https://www.frbsf.org/community-development/files/wp08-041.pdf.

The list below shows the history of Missouri banks receiving BEA allocations in the past 5 years: [24] All of the organizations are located in Kansas City or the southern part of the state.

KC-NWMO:

| | | |
|---|---|---|
| Central Bank of Kansas City | 2014 | $355,000 |
| Enterprise Bank & Trust | 2014 | $60,000 |
| Central Bank of Kansas City | 2015 | $265,496 |
| Enterprise Bank & Trust | 2015 | $7,500 |
| Central Bank of Kansas City | 2016 | $227,282 |
| Central Bank of Kansas City | 2017 | $233,389 |
| Central Bank of Kansas City | 2018 | $233,244 |

South:

| | | |
|---|---|---|
| Century Bank of the Ozarks | 2017 | $46,661 |
| Legacy Bank & Trust Company | 2017 | $124,686 |
| Century Bank of the Ozarks | 2018 | $233,244 |
| Legacy Bank & Trust Company | 2018 | $233,244 |

### CAPITAL MAGNET FUND

The Capital Magnet Fund provides competitively awarded grants to CDFIs and qualified nonprofit housing organizations. CMF awards can be used to finance affordable housing activities and related economic development activities and community service facilities. Awardees will be able to utilize financing tools such as loan loss reserves, loan funds, risk-sharing loans and loan guarantees to produce eligible activities whose aggregate costs are at least ten times the size of the award amount.

| | | |
|---|---|---|
| Central Bank of Kansas City | 2016 | $2,800,000 |
| Legacy Bank & Trust Company | 2017 | $2,400,000 |
| Central Bank of Kansas City | 2018 | $3,750,000 |

## U.S. SMALL BUSINESS ADMINISTRATION PROGRAMS

### LOAN GUARANTEES

The U.S. Small Business Administration (SBA) does not make direct loans to small businesses. Rather, they set the guidelines for loans, which are then made by its partners (lenders, community development organizations and microlending intermediaries). The SBA guarantees that these loans will be repaid, thus eliminating some of the risk to the lending partners. So when a business applies for an SBA loan, it is actually applying to a bank for a commercial loan, structured according to SBA requirements with an SBA guaranty. SBA-guaranteed loans may not be made to a small business if the borrower has access to other financing with reasonable terms.

[24] Data from CDFI Fund, retrieved June 2017, https://www.cdfifund.gov/awards/state-awards/Pages/default.aspx.

## MICROLOAN PROGRAM

The SBA's Microloan Program provides small businesses with small short-term loans for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. SBA makes funds available to specially designated intermediary lenders, which are nonprofit organizations with experience in lending and technical assistance. These intermediaries then make loans to eligible borrowers in amounts up to a maximum of $50,000 with a maximum term of six years. Applications are submitted to the local intermediary and all credit decisions are made on the local level. The SBA provides a loan to the local intermediary to establish a microloan pool. An intermediary may not borrow more than $750,000 in the first year of participation in the program. In later years, the intermediary's obligation to the SBA may not exceed an aggregate of $5 million, subject to statutory limitations on the total amount of funds available per state.

Because the SBA provides low interest funds to the intermediary, they are able to offer these loan programs with an average interest rate of seven to 12%, depending on the use of proceeds. The microlenders help move the companies along the continuum to become a viable commercial borrower.

To be eligible to apply for program participation as a Microloan Intermediary, nonprofit organizations must:

- Have at least one year of experience directly making and servicing microloans; and
- Have at least one year of experience providing in-house marketing, management and technical assistance to its microlevel borrowers.

In addition, the organization must establish a loan loss reserve fund to cover any shortage caused by delinquencies or losses on microloans equal to 15% of any loan that it receives from the SBA. The contribution may not be borrowed. For purposes of this program, Community Development Block Grants (CDBG) are considered non-federal sources.

Two organizations in Missouri currently have SBA-backed microloan programs: Justine PETERSEN and AltCap. Combined, the two programs provided 42[25] microloans from Oct. 1, 2017 to Sept. 30, 2018. Almost all of those loans (40) were in urban communities.

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[25] The loans provided through Justine PETERSEN are included in the overall count above.

# U.S. DEPARTMENT OF COMMERCE PROGRAMS

The Economic Development Administration's Revolving Loan Fund Program supplies small businesses and entrepreneurs with the gap financing needed to start or expand their business. EDA's regional offices award competitive grants to state and local governments, institutions of higher education, public or private nonprofit organizations, EDA-approved economic development district organizations and Indian Tribes. Each EDA-funded RLF sets its own underwriting and risk management policies, and determines interest rates, loan terms and maximum assistance levels in accordance with its own policies, and the unique characteristics of each loan.

U.S. Department of Commerce EDA programs all require 1:1 match from the local community to access funds. The 14 organizations in Missouri that have received these funds have established revolving loan funds.

# U.S. DEPARTMENT OF AGRICULTURE PROGRAMS

## RURAL BUSINESS DEVELOPMENT GRANTS (RBDG)

The Rural Business Development Grants program was created by consolidating two rural business development programs, Rural Business Opportunity Grant (RBOG) and Rural Enterprise Development Grant (RBEG). The RBDG program in Missouri is designed to support technical assistance, training and other activities to assist the expansion of small and emerging businesses in rural areas. The funds go to a rural public entity (town, nonprofit, rural cooperatives, etc.) which, in turn, uses the funds for training, loan funds, business plans, etc.

In 2018, 27 entities in Missouri received Rural Business Development Grants: [26] Many are located outside the two main population centers. The chart below lists the allocations by organization for 2018.

KC-NWMO:

| | |
|---|---|
| Community Foundation of NW Missouri | $34,211.00 |
| Green Hills Regional Planning Commission | $44,648.00 |
| Grundy Electric Cooperative | $5,000.00 |
| Heartland Foundation | $36,677.00 |
| Missouri Highway 36 Heritage Alliance | $12,750.00 |
| Northwest Missouri State University | $34,296.00 |
| Good Samaritan Center of Excelsior Springs | $27,750.00 |

[26] United States Department of Agriculture Rural Development, Grant Awards. Retrieved June 2019 from https://www.rd.usda.gov/newsroom/grant-awards

NEMO-Central:

| | |
|---|---|
| City of Moberly | $30,000.00 |
| City of St. James | $43,000.00 |
| Meramec Regional Planning Commission | $45,800.00 |
| Missouri Incutech Foundation (Phelps County) | $43,595.00 |
| Missouri Rural Enterprise and Innovation (Adair County) | $50,000.00 |
| North Central Missouri Business Facilitation | $25,000.00 |
| University of Missouri | $50,000.00 |

South:

| | |
|---|---|
| Burrell Working Solutions (Polk County) | $25,000.00 |
| City of Delta | $15,000.00 |
| City of Senath | $28,080.00 |
| Community College District of Central SW MO | $75,000.00 |
| Community Foundation of the Ozarks | $50,000.00 |
| Downtown Poplar Bluff | $53,305.00 |
| Greater Poplar Bluff Area Chamber of Commerce | $30,000.00 |
| Ozarks South Central Tourism | $30,000.00 |
| Southeast Missouri State University | $51,000.00 |
| Stoddard Progressive Industries | $25,150.00 |
| Susanna Wesley Family Learning Center (Mississippi County) | $48,900.00 |

St. Louis:

| | |
|---|---|
| Boonslick Community Development Corp. | $49,818.00 |
| Junior College District of East Central | $70,000.00 |

## U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, OFFICE OF COMMUNITY SERVICES

### COMMUNITY ECONOMIC DEVELOPMENT GRANTS

HHS provides discretionary grant funds to Community Development Corporations for well-planned, financially viable and innovative projects to enhance job creation and business development for low-income individuals. Up to $800,000 is available for projects that can include revolving loan funds, real estate development and business startup and expansion.

The program has funded two projects in Missouri. The Hispanic Economic Development Corporation received $312,320 to provide microloans in Kansas City. Justine PETERSEN received $780,000 for the JP Greencubator that supports food-related startups and green companies on the north side of St. Louis.

# U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS

## COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG)

Microloan funding is an eligible activity under the HUD's Community Development Block Grant program. Use of funds is determined by citizen input into the CDBG process by the participating local or state government. The program may include low interest loans, forgivable loans and loan guarantees. For microenterprise loans, at least one job must be created or retained for every $15,000 of loan proceeds.

Eighty-four CDBG grants were awarded in Missouri from 2014-2018[27]. Most of these grants go to larger cities in urban areas, including metro St. Louis, metro Kansas City, Columbia, Jefferson City, Springfield and Joplin.

Statewide:

| | | |
|---|---|---|
| Missouri | 2018 | $22,537,848 |
| Missouri | 2017 | $20,328,096 |
| Missouri | 2016 | $20,789,141 |
| Missouri | 2015 | $20,370,695 |
| Missouri | 2014 | $20,771,388 |

KC-NWMO:

| | | |
|---|---|---|
| Blue Springs | 2018 | $271,636 |
| Independence | 2018 | $829,993 |
| Kansas City | 2018 | $7,752,278 |
| Lee's Summit | 2018 | $390,209 |
| St. Joseph | 2018 | $1,558,903 |
| Blue Springs | 2017 | $221,291 |
| Independence | 2017 | $718,203 |
| Kansas City | 2017 | $7,108,861 |
| Lee's Summit | 2017 | $354,769 |
| St. Joseph | 2017 | $1,376,090 |
| Blue Springs | 2016 | $208,842 |
| Independence | 2016 | $759,508 |
| Kansas City | 2016 | $7,214,053 |
| Lee's Summit | 2016 | $369,299 |
| St. Joseph | 2016 | $1,357,181 |
| Blue Springs | 2015 | $217,802 |
| Independence | 2015 | $759,326 |
| Kansas City | 2015 | $7,368,304 |
| Lee's Summit | 2015 | $365,566 |
| St. Joseph | 2015 | $1,357,756 |

[27] HUD Awards and Allocations. Retrieved June 2019 from https://www.hudexchange.info/GRANTEES/ALLOCATIONS-AWARDS/?

| | | |
|---|---|---|
| Blue Springs | 2014 | $228,360 |
| Independence | 2014 | $762,612 |
| Kansas City | 2014 | $7,531,079 |
| Lee's Summit | 2014 | $338,070 |
| St. Joseph | 2014 | $134,1763 |

NEMO-Central:

| | | |
|---|---|---|
| Columbia | 2018 | $924,326 |
| Jefferson City | 2018 | $286,021 |
| Columbia | 2017 | $837,401 |
| Jefferson City | 2017 | $244,499 |
| Columbia | 2016 | $831,372 |
| Jefferson City | 2016 | $262,865 |
| Columbia | 2015 | $839,885 |
| Jefferson City | 2015 | $243,075 |
| Columbia | 2014 | $852,778 |
| Jefferson City | 2014 | $243,431 |

South:

| | | |
|---|---|---|
| Joplin | 2018 | $537,939 |
| Springfield | 2018 | $1,398,572 |
| Joplin | 2017 | $491,315 |
| Springfield | 2017 | $1,303,360 |
| Joplin | 2016 | $509,627 |
| Springfield | 2016 | $1,284,591 |
| Joplin | 2015 | $504,288 |
| Springfield | 2015 | $1,270,444 |
| Joplin | 2014 | $504,300 |
| Springfield | 2014 | $1,250,993 |

St. Louis:

| | | |
|---|---|---|
| Florissant | 2018 | $241,140 |
| Jefferson Cty | 2018 | $1,143,481 |
| O'Fallon | 2018 | $278,879 |
| St. Charles Cty | 2018 | $1,112,491 |
| St. Louis County | 2018 | $5,605876 |
| St. Louis | 2018 | $17,798,425 |
| Florissant | 2017 | $212,059 |
| Jefferson Cty | 2017 | $1,064,354 |
| O'Fallon | 2017 | $252,891 |
| St. Charles Cty | 2017 | $656,116 |
| St. Charles | 2017 | $324,610 |
| St. Louis County | 2017 | $4,988,375 |
| St. Louis | 2017 | $16,236,208 |
| Florissant | 2016 | $223,541 |

| | | |
|---|---|---|
| Jefferson Cty | 2016 | $1,074,374 |
| O'Fallon | 2016 | $245,740 |
| St. Charles Cty | 2016 | $668,464 |
| St. Charles | 2016 | $333,137 |
| St. Louis County | 2016 | $5,013,334 |
| St. Louis | 2016 | $16,118,302 |
| Florissant | 2015 | $217,568 |
| Jefferson Cty | 2015 | $1,070,608 |
| O'Fallon | 2015 | $239,691 |
| St. Charles Cty | 2015 | $655,733 |
| St. Charles | 2015 | $324,929 |
| St. Louis County | 2015 | $4,996,690 |
| St. Louis | 2015 | $16,364,958 |
| Florissant | 2014 | $214,078 |
| Jefferson Cty | 2014 | $1,086,128 |
| O'Fallon | 2014 | $230,310 |
| St. Charles Cty | 2014 | $633,571 |
| St. Charles | 2014 | $337,929 |
| St. Louis County | 2014 | $4,827,586 |
| St. Louis | 2014 | $16,683,286 |

## COMMUNITY SERVICE BLOCK GRANTS (CSBG)

The CSBG program provides funds to state and local jurisdictions to alleviate the causes and conditions of poverty in communities. These can be used to support microloan programs. These funds have been managed by the Missouri Division of Social Services[28] through 19 local community action agencies.

[28] Missouri Department of Social Services, Retrieved June 2019, https://dss.mo.gov/fsd/csbg.

# HOW TO ACCESS EARLY-STAGE LOAN CAPITAL IN MISSOURI

Most entrepreneurs at the startup phase of business are unfamiliar with the various types of financing products available, let alone what may be required to successfully apply for such financing. MOSourceLink is building a statewide network of resources that can help business owners determine when, where and how to apply for early-stage debt financing.

The network navigators at the MOSourceLink hotline (866-870-6500) can provide an initial assessment for financing options and make referrals to the most appropriate resources. They can also create a personalized action plan based on the specific needs of the company.

Funded through the U.S. Small Business Administration, the Small Business Development Centers have a joint goal with the SBA to increase the number of SBA loan products in the market. Therefore, SBDC counselors are well trained in accessing these important tools. They can help determine the appropriate product for the business, prepare necessary materials required by banks and make introductions to bankers that can lead to a loan. SBDC counselors are also excellent resources for accessing local loan products, both microloans and revolving loans.

Any of the following MOSourceLink Resource Partners can help with loan packaging.

## ORGANIZATIONS THAT SUPPORT LOAN READINESS, LOAN PACKAGING AND TRUSTED BANK REFERRALS

- AltCap is a catalyst for investments in Kansas City's low- to moderate-income communities, using innovative financing products, targeted economic development programming and strategic partnerships.
- EDC Loan Corporation of Kansas City is the finance arm of The Kansas City Economic Development Corporation. Entrepreneurial resources include low-cost, long-term financing, primarily using the SBA 504 Loan program. EDC offers similar long-term asset financing programs through various revolving loan funds. All loan funds available at the EDC Loan Corporation are used in acquiring real estate and fixed assets.
- Hispanic Economic Development Corporation (HEDC) is dedicated to improving the lives of Latinos within the greater Kansas City. HEDC achieves this through business development and economic and community wealth creation initiatives.
- International Institute of St. Louis Small Business Division provides a wide variety of services to more than 1,000 newcomers annually. Services are specialized for immigrants and refugees who are linguistically and culturally disadvantaged business owners.

- Johnson County Economic Development Corporation (JCEDC) provides confidential one-on-one business assistance, microloan funds, financing options and incentives, for new and existing businesses, small to large, for all Johnson County, Missouri.
- Justine PETERSEN offers microloans to startup and existing small businesses. Microloans are offered to those unable to access capital from traditional sources.
- Lee's Summit EDC is dedicated to business attraction and retention to achieve a strong economic climate in Lee's Summit.
- Mark Twain Regional Council of Governments provides technical assistance to businesses, communities and counties in an eight-county region.
- Meramec Regional Planning Commission is a voluntary council of governments that helps businesses solve problems. The Meramec RPC serves Crawford, Dent, Gasconade, Maries, Osage, Phelps, Pulaski and Washington counties.
- Midwest Small Business Finance provides small businesses with economic development and financial assistance through various programs and loan funds.
- Missouri Small Business Development Center (SBDC) business specialists are uniquely qualified to help small businesses get started, develop and thrive. Offices are located throughout the state.
- The purpose of MO-KAN Development is to promote and assist the growth and development of small businesses in Missouri and Kansas through the selection of recipients for loans guaranteed by the Small Business Administration and various in-house, revolving loan funds.
- Nodaway County Economic Development provides services to businesses in Nodaway County, managing two loan funds to assist startup businesses.
- RMI is a financial resource that provides long-term, fixed-rate financing through several diverse loan products to Missouri businesses.
- The mission of the SBA regional offices is to aid, counsel, assist and protect the interests of small business concerns. Offices are located in Kansas City and St. Louis.
- Small Business Growth Corporation provides customized, below market, long-term, fixed rate SBA 504 financing to small businesses throughout the Midwest from its three regional offices.
- To serve businesses of all sizes, the St. Charles County EDC offers business financing programs, business counseling and tenant space at its nationally-recognized incubator facility, monthly business training seminars and recruitment/retention services.

- **St. Louis Economic Development Partnership** offers a variety of finance tools to help either start or grow a business. The finance tools are as unique and innovative as the small businesses they serve.

*Figure 17: Location of Organizations that Support Loan Packaging*

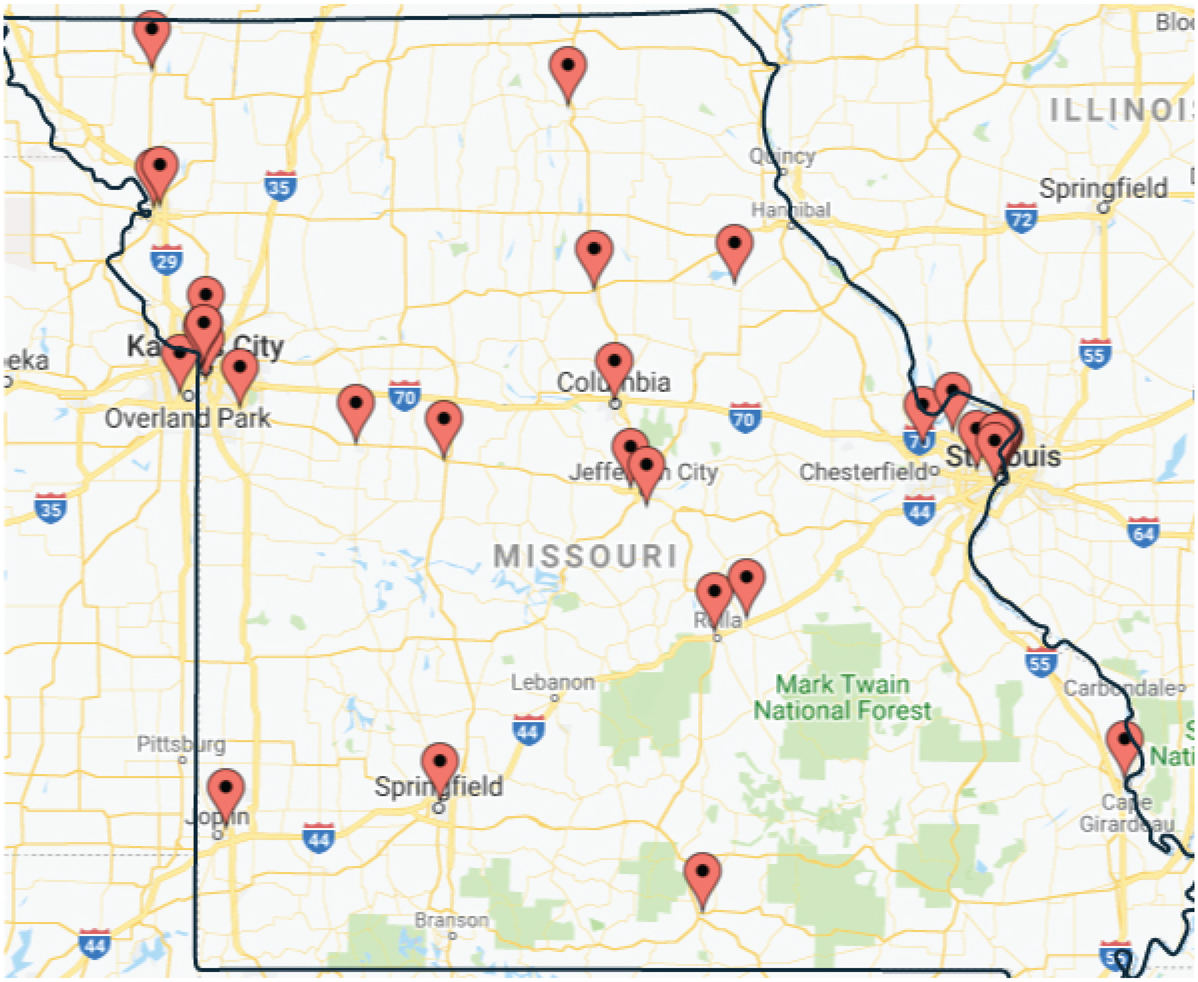


*Figure 18: Missouri Early-Stage Loan Infrastructure, 2018*

| | Individual Development Account | Credit Building Loans and Repair | Microloans | Revolving Loans |
|---|---|---|---|---|
| Community Action Agency of St. Louis County | x | | | |
| United Way Greater St. Louis Asset-Building Collaborative | x | | | |
| Clearpoint Credit Counseling | | x | | |
| Community Services League | | x | | |
| Consumer Credit Counseling Service of Greater Kansas City and Mid Missouri | | x | | |
| Consumer Credit Counseling Service of the Ozarks | | x | | |
| CSL Next Step KC | | x | | |
| CSL/Holy Rosary Credit Union Small Dollar Lending | | x | | |
| Grace Hill Women's Business Center | | x | | |
| Guadalupe Center | | x | | |
| Justine PETERSEN | | x | x | |
| Metropolitan Lutheran Ministry | | x | | |
| Rockhurst Prosperity Center | | x | | |
| University of Missouri Extension | | x | | |
| Women's Employment Network | | x | | |
| AltCap ArtCap Microloan | | | x | |
| AltCap Diversified Contractors Growth Fund | | | x | |
| AltCap SBA Microloan | | | x | |
| Boonslick RPC | | | x | x |
| Hispanic Economic Development Corp. | | | x | |
| Lake of the Ozarks Regional EDC | | | x | x |
| LEAD Bank Civic Contractor Funding | | | x | |
| Marshfield Micro Finance | | | x | |
| Ozarks Small Business Incubator Microloan | | | x | |
| South Central Ozark RDC | | | x | x |
| WE-Lend | | | x | |
| Green Hills Rural Development | | | | x |
| Grow Missouri Loan Fund | | | | x |
| Howell Oregon Electric Coop | | | | x |
| Intercounty Electric Coop | | | | x |
| Johnson Co EDC | | | | x |

| | | | | |
|---|---|---|---|---|
| Joplin Capital Corp. | | | | x |
| KCMO EDC Neighborhood Commercial | | | | x |
| KCMO EDC Revolving Loan | | | | x |
| KCMO EDC River Market Loan | | | | x |
| Kirksville Revolving Loan | | | | x |
| Macon County Economic Development | | | | x |
| Mark Twain Revolving Loan Fund | | | | x |
| Meramec RDC | | | | x |
| Midwest Small Business Finance | | | | x |
| MO AG Agribusiness Revolving Loan | | | | x |
| MO AG Animal Waste Treatment | | | | x |
| MO AG Alternative Loan Program | | | | x |
| MO AG Beginning Framer and Down Payment | | | | x |
| MO-KAN Revolving Loan | | | | x |
| RMI Direct | | | | x |
| RMI Intermediary Relending | | | | x |
| SEED$ (Southeast Economic Development Fund) | | | | x |
| Se-Ma-No Electric Coop | | | | x |
| Southeast Missouri RP/EDC | | | | x |
| Springfield Business Development Loan | | | | x |
| St. Charles County EDC | | | | x |
| St. Louis EDC BOOST Loan | | | | x |
| St. Louis EDC Contractor Loan Guaranty | | | | x |
| St. Louis Local Development Co. | | | | x |
| White River Valley Electric Coop | | | | x |

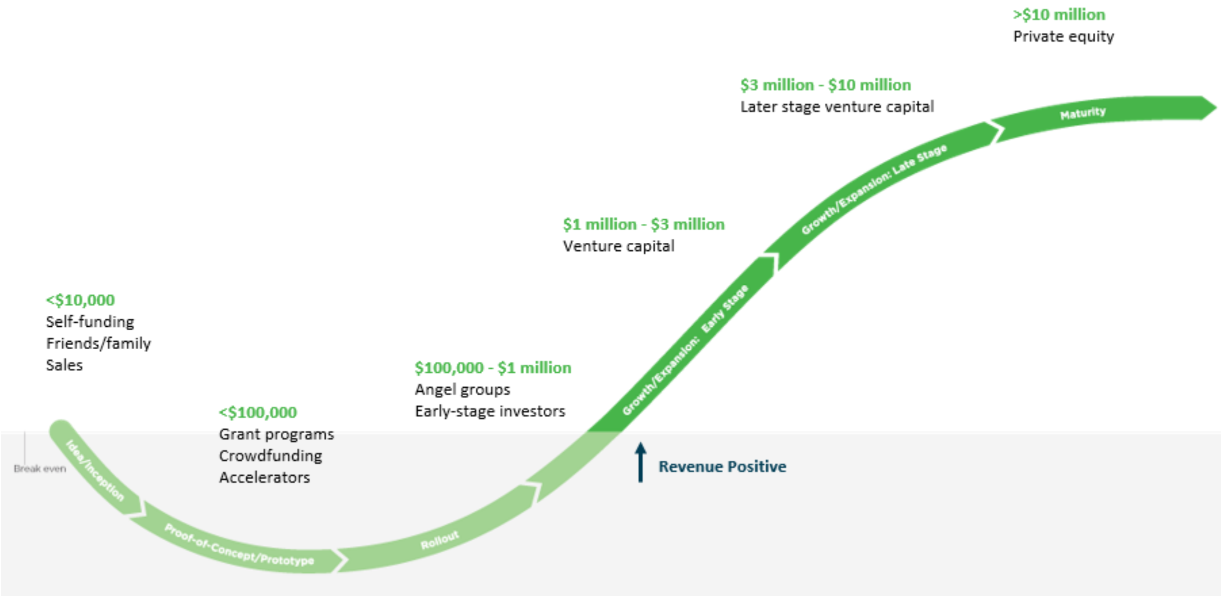
# MISSOURI GRANT AND EQUITY FINANCING

A very small number of young companies will embark successfully on the path to equity. According to the SBA, angel and venture capital (VC) investment accounts for less than 2% of financing for emerging businesses. In addition to equity investors, young firms can pursue grants, crowdfunding opportunities and accelerator programs, as well as financing the company through sales. Equity investment is typically only one piece of the funding strategy.

Although small in number, companies that seek equity investment have the potential to make a significant impact on the economy, due to their large market potential. Equity investment in emerging companies usually comes in stages. Defining these stages is somewhat arbitrary, and they can differ based on industry type and individual company characteristics. Founders, and their families and friends, often provide the first capital. Grants, contests, crowdfunding and accelerators may be the next stage. After this, companies can turn to angel investors, who are often organized into groups, and to other seed capital funds. Companies that continue to grow and have increasing capital needs reach out to venture capital funds to drive later stages of development.

Equity investors look for companies developing differentiated products that address large global markets, offer an exceptional exit potential in a reasonable period of time and promise high return on the invested capital. Startups that meet the criteria can raise capital in exchange for convertible debt or ownership equity.

*Figure 19: Capital Continuum for Early-Stage, Equity-Seeking Companies*[29]




There is usually a point during the life cycle of a successful company that has raised capital from angel investors, seed funds and venture capital firms when the business becomes bankable and no longer finds the terms of these types of investments attractive.

As revenues grow and working capital is needed, companies reach out to banks and may support continued operations through lines of credit and other commercial loans. This continues until expansion overcomes the ability of traditional bank loans and another equity round may occur. A short-term debt "mezzanine" round may follow to prepare for an acquisition, buyout or an initial public offering (IPO). Later rounds can be funded by hedge funds, private equity firms and investment banks.

The capital continuum is changing as trends in venture capital investing change. More VC investment is moving from early-stage companies to later stage companies. Based on analysis from the PwC MoneyTree report, the U.S. venture capital industry invested $293 billion into 38,807 companies from 2005-2014, but only 4.7% went to seed stage deals ($13 billion).[30] This statistic further underscores the need for the community to support the earliest stages of the capital continuum, funding innovative companies that are too early for venture capitalists or even angels.

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[29] This continuum represents the typical flow for a tech-based company. Biosciences companies in sectors requiring FDA approval (therapeutics, diagnostics, most medical devices, agricultural crops) typically raise larger sums at each level.

[30] J. Johnson, *Mind the Gap Report*, Innovosource LLC, updated 2018.

*Figure 20: Missouri Early-Stage Grant and Equity Infrastructure*

| | <$100,000 | <$1 million | $1-3 million | >$3 million |
|---|---|---|---|---|
| Competitions | x | | | |
| Local and State Grants | x | | | |
| Federal Research and Development | | x | x | |
| Crowdfunding | x | | | |
| Accelerators | x | | | |
| Government Incentives and | | | x | x |
| Angel Networks | | x | x | |
| Venture Capital Funds | | | x | x |

## COMPETITIONS AND LOCAL/STATE GRANTS

Grants play a critical role in the funding continuum as they fuel companies too early for investors that expect immediate returns. Grants do not have to be repaid and the organization giving the grant or financial support does not take an equity position in the company, so there is no dilution of the company's equity position which could hinder later-stage fundraising. Because the companies targeted are not "bankable" yet, support for them must come from the community (typically local or state funding). If early-stage companies do not get the necessary investments to prove concepts and test markets, they die before they have a chance to grow and prosper.

Business plan competitions have been an important part of entrepreneurial education in higher-education institutions for many years. A variety of other organizations are now using this mechanism to identify promising startups, recruit them to a region and encourage individuals to take the first step toward becoming an entrepreneur. These competitive events typically feature an application process and a live pitch component.

In the last decade, organizations in Missouri have created a variety of competitions and grant programs to support early-stage companies, mostly in the tech space. The competitions and programs listed in this section provide grants and cash prizes for winners, which can provide startup or growth funds. Several organizations throughout the state offer hackathons to encourage the development of technical skills and Startup Weekends to help early-stage companies test their concepts.

Statewide:

- **EQ Student Accelerator Competition** is open to students from any of the University of Missouri system campuses. Student entrepreneurs participate in campus competitions, with the winners advancing to a Champion Round in the spring. Participants have the opportunity to win $30,000 in funding, and most individual campuses offer small amounts of funding to their winners.
- **The University of Missouri** announced a $20.5 million investment in research and creative works across the four universities in 2019. A competitive process among faculty selected 19 research projects representing healthcare to analytics. The investment positions the university system to leverage additional private and federal support for this research.

KC-NWMO:

- **AltCap Your Biz** is hosted by AltCap in Kansas City and awards $10,000 to the winner, as well as technical assistance and peer-to-peer business mentoring. Typically 10 businesses pitch for the top three prizes.
- The advent of **Digital Sandbox KC** into the Kansas City market in 2013 marked a dramatic shift in sources of funds for proving concepts in the Kansas City metro area. Digital Sandbox KC, part of the UMKC Innovation Center, provides about $20,000 in proof-of-concept resources including market validation, prototyping and beta testing support for development of digital technologies within new and existing businesses. From 2014-2018, the Sandbox provided fund support to 56 new concepts for Missouri-based entrepreneurs. In addition to funding, the Sandbox links companies to a variety of resources to help with business development and follow-on funding.
- **LEANLAB Education** is a Kansas City-based community program that launches transformational education innovations with both for-profit and not-for-profit organizations. Founded in 2013, the program has worked with 34 entrepreneurs.
- **Regnier Venture Creation Challenge** at the University of Missouri – Kansas City is a business plan and pitch competition for new student ventures. Applications are open to students anywhere in Missouri or Kansas. More than $75,000 in prize money is awarded.
- **Shark Tank Youth Competition,** sponsored by Central Bank of Kansas City, allows two teams per school to pitch for a $1000 first prize. The competition is led by the UMKC Office of Financial Literacy.

NEMO-Central:

- **Missouri S&T** hosts the FIRST Tech Challenge, designed for students in grades 7-12 to compete by designing, building and programming a robot.
- **Truman State University** hosts the Business Innovation by Truman Entrepreneurs (Bulldog B.I.T.E.) pitch competition for Truman State students. Judges select six teams to pitch live before a panel of judges. The top three receive seed money to pursue their ideas.

South:

- **efactory** in Springfield hosts a pitch competition each spring. Local founders pitch their business ideas for cash prizes between $5,000 and $10,000. **The Ozark Small Business Incubator** sponsors the **EPIC pitch competition** each year during national small business week. The first prize of cash, mentoring and coworking space is valued at $1,500.
- Maquette Tech District Foundation and Codefi provide support for the **1st50K** startup competition for tech startups who will locate in the Cape Girardeau area. Winners receive up to $50,000 in cash grants, pro-bono development services and access to a broad business network. Since 2015, $250,000 in grants have been awarded to companies that generated more than $3 million in revenue and created more than 30 jobs.

St. Louis:

- **ArchGrants** provides $50,000 equity-free grants and pro bono services to early-stage entrepreneurs who locate in St. Louis. Through its competitive Global Startup Competition, Arch Grants attracts innovative companies to the St. Louis region. Past Arch Grant recipients are eligible to participate in the Chaifetz STLaunch competition for up to $1,000,000 in equity investment from Chaifetz Group. The program began in 2012 and from 2014-2018 has provided $2.3 million grants.
- Since 2014, the **Balsa Foundation** in St. Louis has offered grants of $1,000 to help first-time entrepreneurs get their ideas off the ground. The program also includes about $20,000 worth of in-kind professional services, business workshops and one-on-one mentoring. The program has provided 78 grants to early-stage companies.
- In addition to its other programs, **BioGenerator** provides grants to de-risk technologies and business concepts too early for investment. Grants are provided for de-risking specific issues and are not necessarily a one-time award. They can

be utilized for a variety of purposes (e.g., market assessment, third party IP, business or technology reviews; reproducing and extending key technical findings; expert consultants; assistance with commercial grant writing). Cumulative awards to a single entity range from $500 to over $50,000. BioGenerator awards approximately $250,000 in grants each year.

- IdeaBounce® is offered through the Skandalaris Center at Washington University in St. Louis. The event features an opportunity to pitch, get feedback and make connections.
- The Kidzpreneur Entrepreneur Pitch Competition is hosted by St. Louis Family magazine and Xplor. Children ages 5-13 have the opportunity to pitch their best business and product ideas for a chance to win scholarships and prizes.
- Midwest Digital Marketing Conference, hosted by the University of Missouri – St. Louis, sponsors a pitch competition for local startups. Five startups compete for $3,000 in prizes.
- The SLUStart I-Corps at Saint Louis University, launched in 2018, is designed to help university researchers and community inventors extend their focus beyond academia and the laboratory. The Saint Louis University program provides up to $2,000 in financial support to cover costs associated with investigating the commercial potential of research innovations. To date, 61 projects have qualified for funding support.
- The Washington University Leadership and Entrepreneurial Acceleration Program (LEAP) provides industry connections, developmental experience, and funding to research teams with the goal of advancing Washington University intellectual property towards commercialization. Throughout the program, teams receive mentorship from experts in their fields. At the end of each cycle, teams present to industry-relevant investors and representatives, and have the potential to win funding to help progress their inventions towards commercialization. The program is open to anyone with Washington University IP.
- The Wells Fargo Innovation Incubator (IN2) is a $30 million program that facilitates the commercialization and adoption of clean energy and agriculture technologies. IN2 leverages the deep expertise of their key partners at the National Renewable Energy Laboratory (NREL) and St. Louis' Donald Danforth Plant Science Center. IN2 is invitation-only, relying on referrals from more than 40 channel partners, which includes a number of Missouri organizations, to source applicants. Through a competitive review process, select early-stage companies are formally invited into the program where they receive up to $250,000 in

technical assistance from the laboratory and project-related support. Participating companies have access to NREL or Danforth Center's world-class facilities and researchers, who will test, validate and incubate the companies' technologies to help them meet critical validation milestones on the path to commercialization.

While no longer a grants program, LaunchKC played a critical role as a competition designed to attract tech entrepreneurs to Kansas City, Mo. Started in 2015 by the KCMO EDC, the program encouraged tech entrepreneurs to compete for $50,000 grants. In late 2018 and 2019, the program changed its model to focus on industry verticals and now encompasses the Fountain City FinTech Accelerator, sponsored by NBKC bank; IgniteX CleanTech Accelerator, sponsored by Black & Veatch; and the LaunchKC Health Accelerator, sponsored by Nueterra Capital. These new programs do not provide direct grants or equity investments into companies selected. During its tenure, LaunchKC awarded 25 grants to Missouri companies for a total of $1,250,000.

The Missouri Department of Agriculture offers several grant programs designed to encourage agriculture businesses in the state.

- The *Farmers' Market Matching Grant Program* is a reimbursement grant program funded through the Missouri Department of Agriculture. This grant awards up to $1,000 for reimbursement of expenses associated with promoting Missouri's farmers' markets.
- *Missouri Value-Added "Farm to Table" Grant Program* provides funding for Missouri businesses to access and process locally grown agricultural products for use in institutions within the state. For FY2018 the program provided three grants for a total of $421,000.
- *Missouri Value-Added Grant Program* is for projects that add value to Missouri agricultural products and aid the economy of a rural community. For FY2018 the program funded 26 grants for a total of just more than $3 million.
- *Cover Crop Regional Conservation Partnership Program* helps improve the adoption and utilization of cover crops by Missouri land owners.
- *Organic Certification Cost Share Program* provides cost share assistance to organic producers and handlers receiving certification or continuation of certification by a USDA accredited certifying agency.
- *Specialty Crop Block Grant Program* supports projects that include research, agricultural extension activities, and programs that increase demand and address the needs of Missouri's specialty crop industry. Specialty crops are defined by the

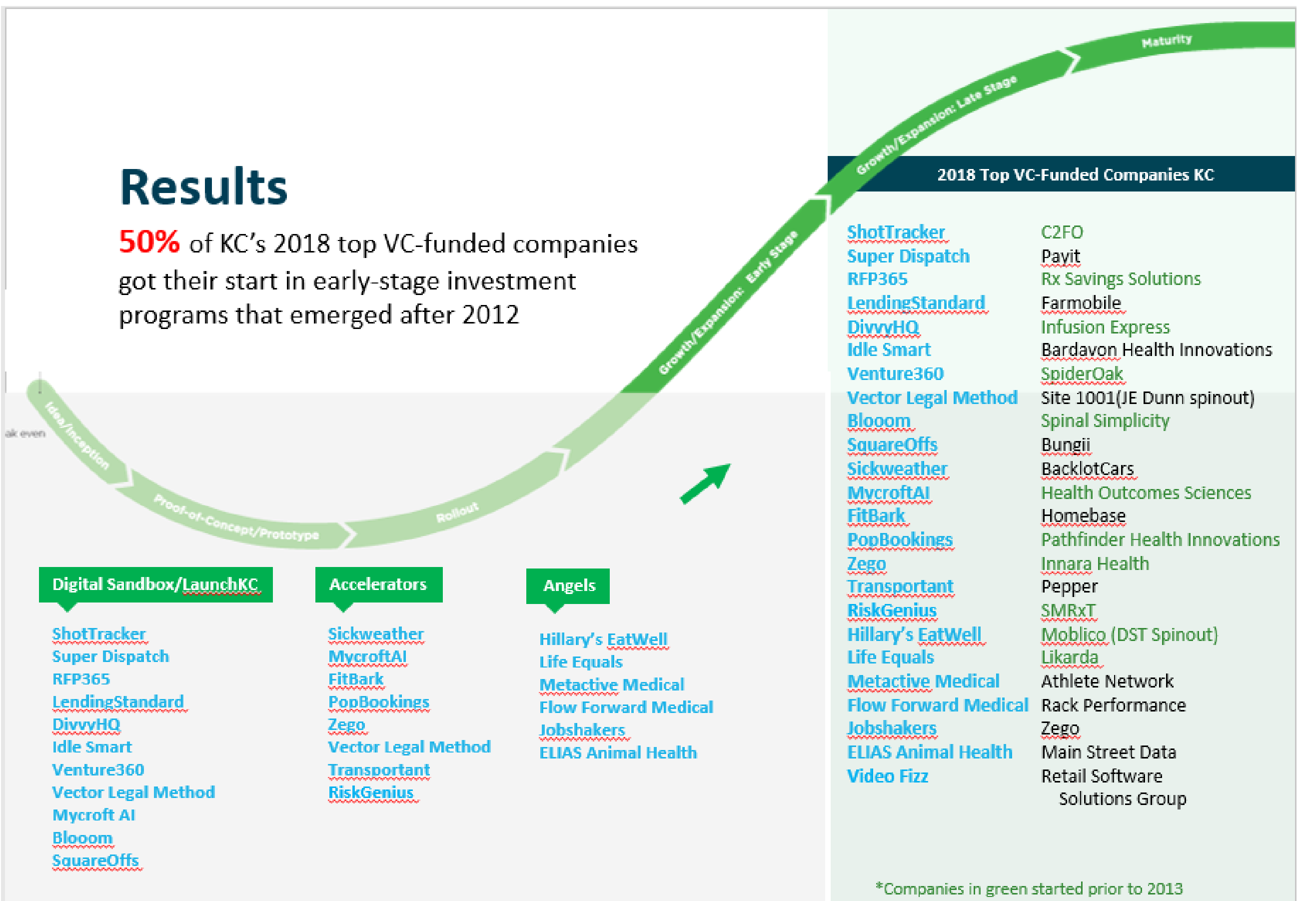
USDA as fruits and vegetables, dried fruit, tree nuts, maple syrup, honey, horticulture and nursery crops, including floriculture.

## IMPACT OF GRANT PROGRAMS

An analysis of Kansas City equity deals for the past several years shows that more investment at the earliest stages (less than $100,000) drives more investment at the later stages. If companies do not get the funds they need to stay alive through the "valley of death" (from inception through revenue generation), they will not be around to raise the later stages of capital, grow and create jobs.

In a recent study of Kansas City's top VC-funded companies, 50% got their start in early-stage investment programs like Digital Sandbox KC, LaunchKC and accelerators. The grant programs play a critical role in the capital continuum. The community (corporations, local and state government) must support these programs because they are too early – and too risky – for the market.

*Figure 21: VC-Backed Companies Access Early-Stage Programs*



Programs like Digital Sandbox KC are frequently funded through local, state or federal grants that require matching funds. Entrepreneurial support organizations could take advantage of more state and federal funding if there were an easily accessible pool of matching funds that could be allocated to special projects.

# FEDERAL RESEARCH AND DEVELOPMENT GRANTS

## SMALL BUSINESS INNOVATION RESEARCH (SBIR) GRANTS

Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs are two federal mechanisms created to incent research and development within small businesses. Grants are awarded to the company to fund technology development of particular interest to the federal government. When people talk about “free” federal grant monies to start businesses, these are two of the very few options available. Funding can span several stages of development due to their phased approach.

Each year, federal agencies with extramural research and development budgets that exceed $100 million are required to allocate 3.2% (as of FY2017) of their extramural R&D budget to the SBIR program. Those with budgets larger than $1 billion must also set aside 0.3% for the STTR program, creating a funding pool for technology research and development. Small businesses of fewer than 500 employees can compete for these funds. Currently, 11 federal agencies participate in the SBIR program and five in the STTR program. The unique feature of the STTR program is the requirement for the small business to formally collaborate with a nonprofit research institution.

To distribute the funds, agencies designate R&D topics in periodic solicitations and accept proposals from small businesses. Awards are made on a competitive basis after proposal evaluation. Funding is provided in phases:

*Phase I:* The objective of Phase I is to establish the technical merit, feasibility and commercial potential of the proposed R&D efforts. Additionally, program officers determine the performance quality of the small business awardee organization prior to providing further federal support in Phase II. SBIR Phase I awards normally do not exceed $150,000 in total costs for one year.

*Phase II:* The objective of Phase II is to continue the R&D efforts initiated in Phase I. Funding is based on the results achieved in Phase I, the scientific/technical merit and commercial potential of the project proposed in Phase II. Only Phase I awardees are eligible for a Phase II award. SBIR Phase II awards normally do not exceed $1,000,000 for two years.

*Phase III:* The objective of Phase III, where appropriate, is for the small business to pursue commercialization objectives resulting from the Phase I/II R&D activities. The SBIR program does not fund Phase III. For some Federal agencies, Phase III may involve follow-on non-SBIR funded R&D or production contracts for products, processes or services intended for use by the U.S. Government.

SBIR/STTR grants typically go to companies closely associated with research universities. From 2014-2018, California topped the list of SBIR awardees with 5,685 grants. Massachusetts was next with 2,946. Stanford University and MIT have a lot to do with those rankings. Missouri ranked 31$^{st}$ in the number of SBIR grants received in 2014-2018 with 205 grants. During that same time frame, Missouri ranked 7$^{th}$ among states in its U.S. Census region. In 2018 only, Missouri was awarded 60 grants.

*Figure 22: Number of SBIR/STTR Awards, Selected States, 2014-2018*

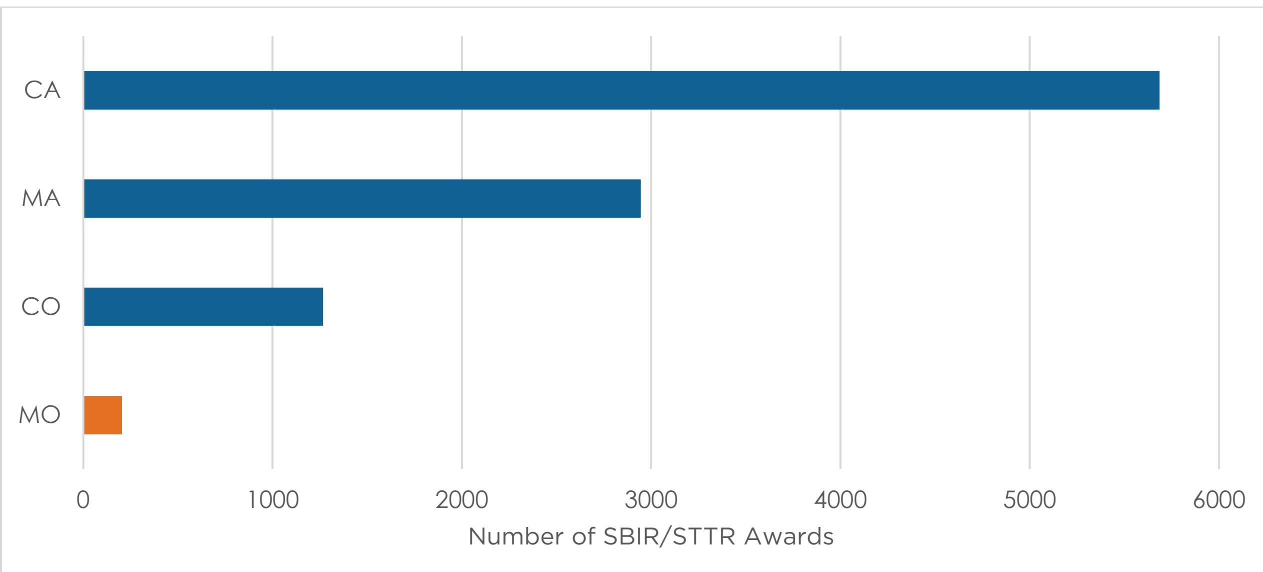
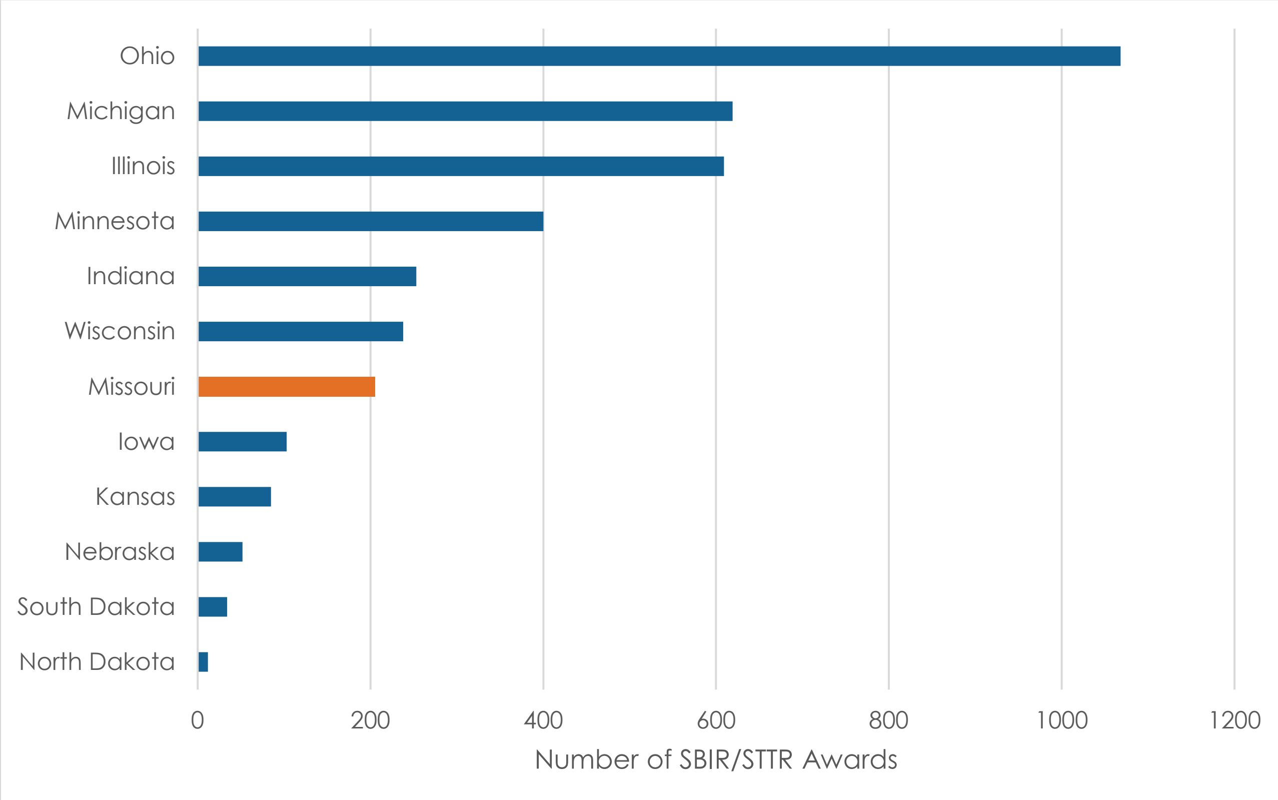


*Figure 23: Missouri Ranks No. 7 in of SBIR/STTR Awards to Midwestern states, 2014-2018*




St. Louis outperforms the rest of the state in terms of SBIR/STTR grants. The STTR program requires that small businesses formally collaborate with a research institution for Phase I and II. The presence of Washington University (a major research institution[31]) in St. Louis may have an impact on that region's success relative to the state as a whole. During 2014-2018, the St. Louis region was awarded 135 grants worth about $62 million.[32]

[31] Washington University in St. Louis is the only university in the state listed in the top 50 research universities by several national ranking organizations.
[32] SBIR/STTR Awards. Based on when award was made, not paid out. Retrieved September 2019 https://www.sbir.gov/sbirsearch/award/all

*Figure 24: Number of SBIR/STTR awards to Missouri companies, by region*

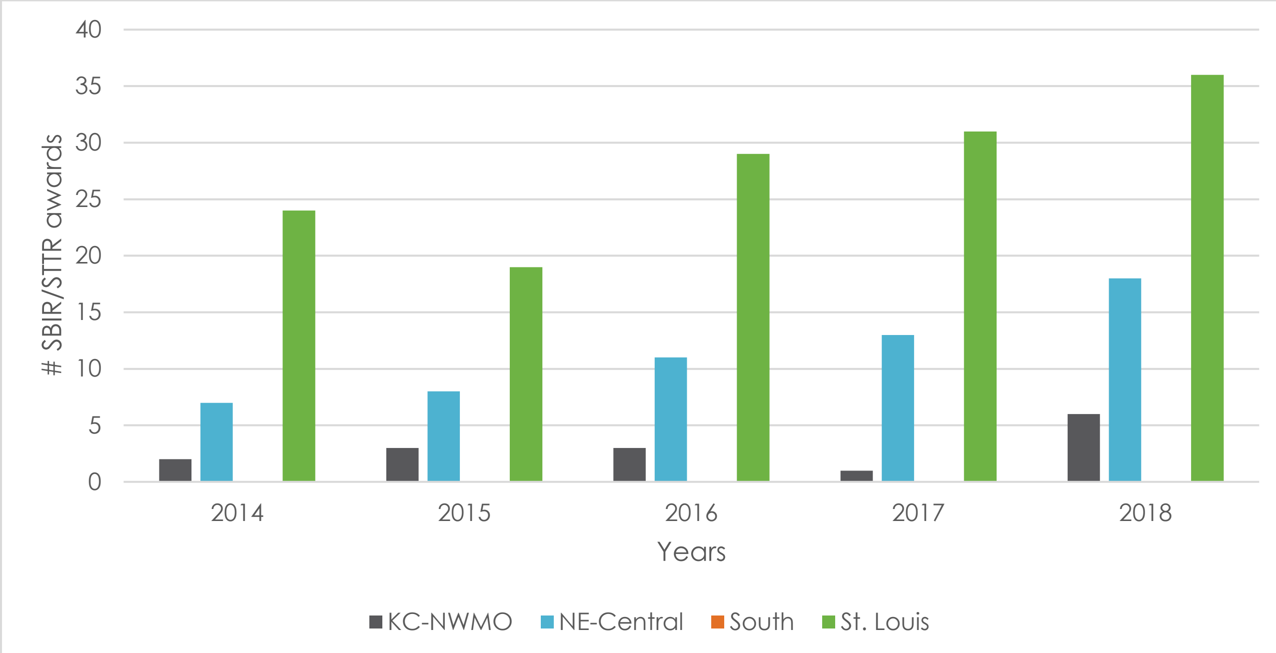
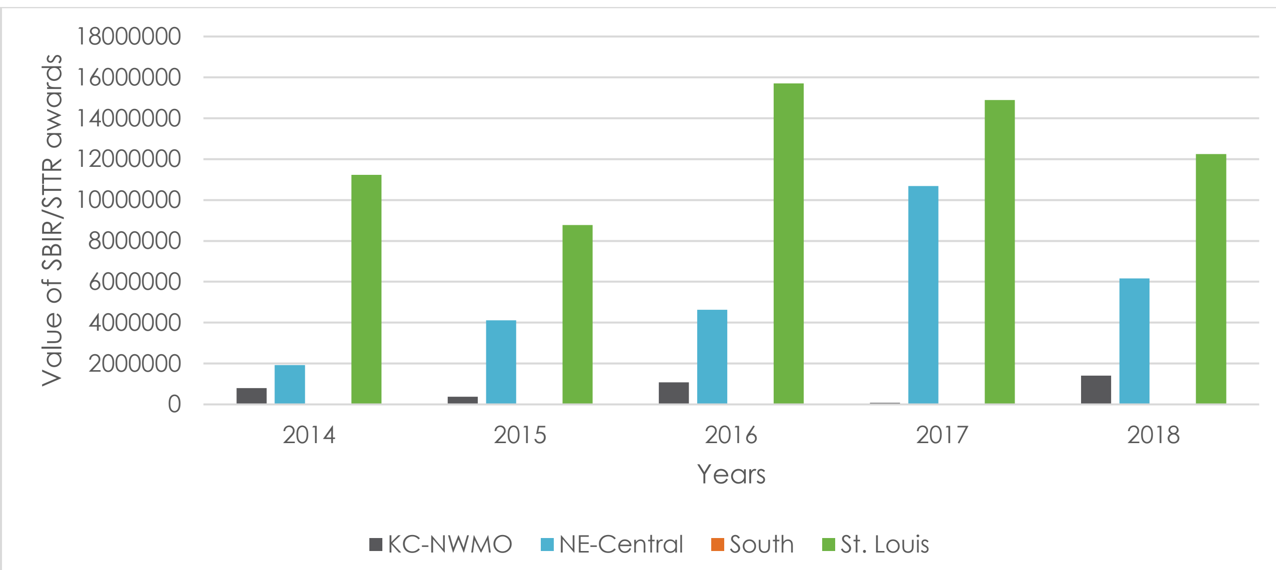



*Figure 25: Value of SBIR/STTR awards to Missouri companies, by region*

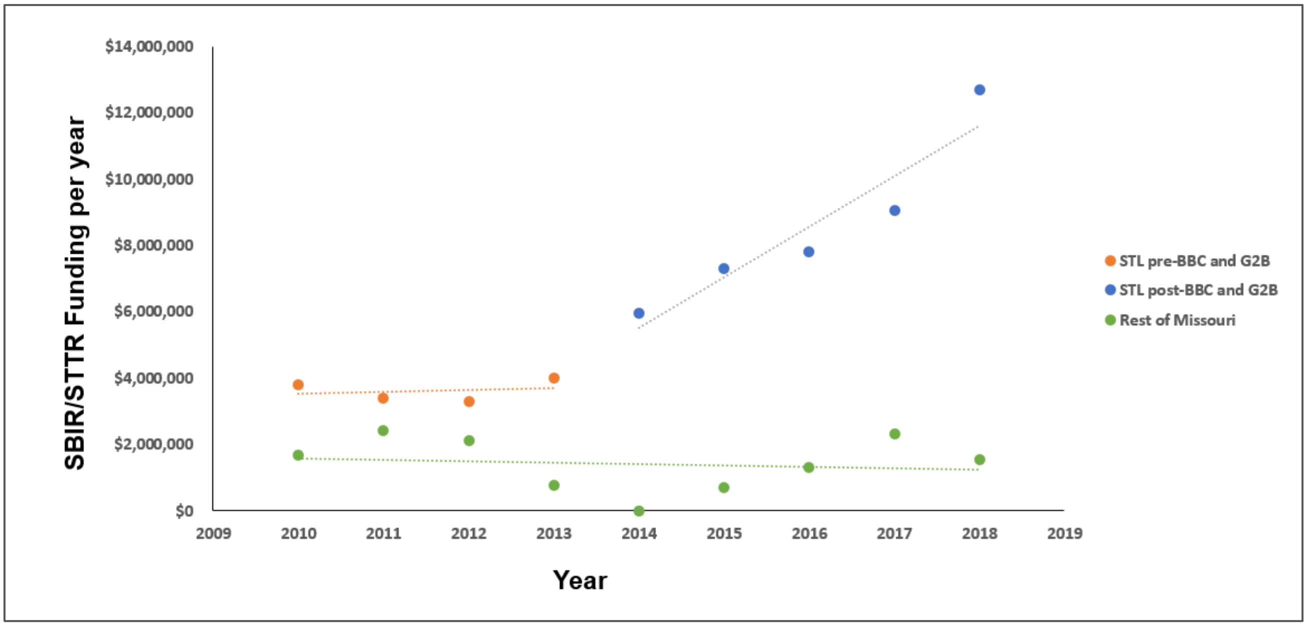



The application process for SBIR/STTR grants is involved and many young companies may not have the time or expertise to prepare the necessary grant application documents. BioGenerator in St. Louis established the Grants to Business (G2B) program to help life-science companies develop competitive applications for business grants, with a focus on SBIR/STTR grants. The program helped early-stage companies win awards totaling $7 million in its first year and over $42 million in total over its four years of operation. The program includes training, grant application feedback, strategy consultations, mock panel reviews and administrative support for selected applicants.

BioGenerator also offers SBIR/STTR preparation workshops, including 1-on-1 assessments of the applications.

The results have been promising. Since the program was implemented, St. Louis companies have seen an increase in SBIR/STTR grants from the National Institute of Health (NIH[33]). SBIR/STTR grants from NIH to other Missouri companies remained relatively flat during the same time frame.

*Figure 26: St. Louis SBIR/STTR Grants from National Institute of Health, 2009-2018*




The Missouri Small Business Development Center offers specific training for those seeking SBIR/STTR grants to build their technology businesses and further technology research. The SBDC's MoFAST (Missouri State and Federal Technology) program offered the Missouri Technology Incentive Program (MoTIP). This program provided funding to support entrepreneurs who were pursuing an SBIR/STTR grant. MoTIP offered $5,000 Phase 0 grants to help with preparing and submitting an SBIR/STTR Phase I grant application.

The program yielded results, with Missouri moving from just 16 SBIR/STTR awards in 2001 to 40 awards in 2002. The effort targeted women-owned and minority businesses, increasing women-owned applications from seven to 15 and minorities from two to 18. The 2002 total for SBIR/STTR grants was just more than $8 million. The program was active again from 2008 to around 2010. During that time frame, 103 Phase 0 grants

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[33] BioGenerator looked at NIH funding specifically because they work primarily with life science companies. Data from National Institute of Health Awards by Location and Organization, https://report.nih.gov/award/index.cfm?ot=&fy=2013&state=&ic=&fm=SB&orgid=&distr=&rfa=&om=n&pid=

totaling $514,000 were awarded. Those grants directly resulted in $4.25 million in SBIR Phase I grants to Missouri companies and drove more successful applications through extensive promotion of the funding stream.

Programs like the SLUStart I-Corps at Saint Louis University are designed to help university researchers and community inventors extend their focus beyond academia and the laboratory. One benefit of the program is better positioning for SBIR/STTR grants.

## CROWDFUNDING

There are two types of crowdfunding platforms, reward-based platforms which have been around for several years and the equity-based platforms started after the passage of the JOBS Act in 2013.

*Reward-based crowdfunding* began as a way for the music industry to generate funding for creative projects. It has expanded to other industries and is an emerging strategy for early-stage companies to raise capital. Companies offer first run products, t-shirts or other promotional materials in exchange for funding. No equity changes hands.

According to Fundable, the average successful reward-based crowdfunding campaign raised $7,000 and runs for about nine weeks.[34] In addition to raising funds, crowdfunding campaigns can be a key component of a larger marketing and branding strategy. Many crowdfunding campaigns allow companies to "test the market" for a product and determine who will buy and at what price—critical information when approaching equity investors for later stages of funding.

Indiegogo and KickStarter are two of the oldest and largest reward-based crowdfunding sites. Those looking for funding set a goal and then have a set amount of time to raise the money. KickStarter requires that the entire goal be met. Indiegogo has a flexible funding model that allows the entrepreneur to take whatever comes in. Both expect that rewards will be offered to potential consumers for different funding levels. Kiva helps entrepreneurs crowdfund a loan through small contributions in increments of $25 or more. Kiva Zip makes loans to low-to-moderate income individuals for their businesses. In Kansas City, the Local Initiatives Support Corporation (LISC) serves as a local partner for the Kiva Zip program. Kiva Zip has also been active in St. Louis.

The passage of the 2012 JOBS Act created the opportunity for equity-based crowdfunding, because it loosened restrictions on how companies could raise money

[34] Fundable, *Crowdfunding Statistics*. Retrieved July 2017 from www.fundable.com/crowdfunding101/crowdfunding-statistics.

and from whom. During an equity crowdfunding round, the company issues equity to those who participate. Funding amounts are typically $1,000 but can be less. According to *Inc.,*[35] the average raise on SeedInvest has been $500,000.

Several platforms have been developed to facilitate equity crowdfunding by aggregating multiple investors into a single financing. Nvsted is an innovative, new online funding portal that provides a way for investors to help fund companies in the St. Louis area or those with significant ties to the St. Louis area. Fundable and Crowdfunder are two of the better known equity crowdfunding platforms. NetCapital and Republic have worked with Kansas City companies.

## ACCELERATORS

Accelerators typically exchange mentoring, space, education, connections and investment in return for equity. Most are 90-day to six-month long immersive programs where cohort companies of 10–12 engage in a defined space on a daily basis and are connected to local mentors. The Global Accelerator Network now consists of 104 accelerators.

While many accelerators in Missouri target local companies, some are designed to attract companies from outside the immediate region. Not all those companies choose to stay after the accelerator program ends. The list below includes only those programs that meet the strict definition of an accelerator: a cohort program that provides an equity investment.

Based on the definition above, there are eight accelerator programs active in Missouri. Almost all of the programs are based in St. Louis, with one in Springfield. TechStars operated in Kansas City for several years, first in collaboration with the Sprint Accelerator and then as a standalone program, providing $120,000 investments in cohort companies. TechStars Kansas City went on hiatus in 2019.

South:

- The **efactory** in Springfield opened its doors in 2013 as a business incubator, training center and support network. The program is sponsored by Missouri State University. Participating companies in the Jumpstart program receive $30,000 in exchange for 8% equity, as well as office space, lead mentors and free business consulting. Since 2016 efactory has had 17 companies go through the accelerator program.

[35] Ryan Feit, Inc., *Equity Crowdfunding by the Numbers*, Nov. 16, 2015. Retrieved July 2017 from https://www.inc.com/ryan-feit/equity-crowdfunding-by-the-numbers.html

St. Louis:

- The Ameren Accelerator at the University of Missouri-St. Louis selects five-seven companies for a 12-week program that includes $100,000 in funding, office space and intensive mentoring. The program focuses on the best new energy technologies.
- Capital Innovators has an eight-year history of providing startups with the resources and connections they need to get to the next level. The Startup Accelerator Program in St. Louis provides $50,000 in seed funding as well as mentoring, co-working space and connections. During its complete history, the Startup Accelerator has worked with 111 companies.
- RGAx is an accelerator within Reinsurance Group of America, a global provider of life reinsurance in St. Louis. The accelerator has invested in eight companies between its founding in 2016 and 2018.
- SixThirty in St. Louis provides fintech startups with up to $250,000 in funding, focused mentorship and connections to the top financial services companies in the country. The accelerator was established in 2013 and has worked with 49 companies.
- SixThirty Cyber provides cybersecurity based startups with $200,000 in capital as well as training, mentoring and networking opportunities.
- Stadia Accelerator helps established sports startups get to the next level through a combination of equity investment, mentoring and connections to sports business executive. The program invested in 20 companies from 2016-2018.
- Yield Lab was formed in 2014 to support early-stage agtech companies. The Yield Lab Accelerators invest $100,000 in early-stage agtech companies, provide connections to customers and identify mentors. Accelerators located in North America, Europe, Latin America and Asia Pacific host 19 portfolio companies in four cohorts. The North America Accelerator is located in St. Louis.

## GOVERNMENT INCENTIVES AND FUNDING

Local, state and federal governments benefit when rapidly growing companies create jobs and generate tax revenue. This makes early-stage companies, which typically generate job growth, of great interest to economic development agencies. Therefore, governments will often provide incentives that encourage private investment or capacity-building grants to support programs that, in turn, support community businesses.

The *Mind the Gap* report,[36] published in 2018, takes a close look at the role of states in supporting technology commercialization. The report states that publicly supported technology and startup funding programs are a growing source of funding for translational research, proof of concept and startup funding to support innovations, especially from research institutions. "States represent one of the most natural partners in early stage technology development and commercialization because their primary motive of economic development, not direct return on investment, often aligns better with the risk involved in seeding new, breakthrough industries.[37]"

The report makes recommendations about the kinds of funding that government should provide for early-stage companies, breaking that support into four categories:

- Translational research gap funds – support applied development of research to the point where it can be assessed for commercial potential
- Proof of concept gap funds – evaluate commercial potential, demonstrate value and help de-risk (Prototypes, commercial assessments)
- Startup formation gap funds – market research, product development, business development, management, space and equipment
- Startup growth gap funds – scaling and growing

According to the report, 27 states have angel tax credits and 40 states have research and development tax credits. Missouri has neither. Missouri previously had an R&D tax credit that lapsed in 2005 and many unsuccessful attempts at passing an angel tax credit.

Missouri has had various types of tax credits aimed at catalyzing investment and the growth of new business. The Small Business Incubator Tax Credit, established in 2007, helps small business incubators leverage funds to use for working capital. The program has a $500,000 cap per year, and allows for a 50% tax credit for contributions to certified business incubators. Currently 15 incubators[38] are certified across the state:

- BEGIN New Venture Center, St. Louis
- Bunker Labs, Kansas City
- Center for Emerging Technologies, St. Louis
- Direct Impact Business Education Center, Bridgeton
- efactory, Springfield
- Independence Regional Ennovation Center, Independence
- Institute for Industrial and Applied Life Sciences, St. Joseph

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[36] J. Johnson, Mind the Gap Report, Innovosource LLC, updated 2018.
[37] Ibid.
[38] Missouri Certified Incubators Contact Information, data.mo.gov. Retrieved August 2019, https://data.mo.gov/Economic-Development/Incubator-Map-View/yuqy-mt9m

- Joseph Newman Business and Technology Innovation Center, Joplin
- Missouri Innovation Center, Columbia
- Ozark Foothills Development Association, Poplar Bluff
- Ozarks Small Business Incubator, West Plains
- Small Business Synergy Center, St. Charles
- Southeast Missouri Innovation Center, Cape Girardeau
- St. Louis Enterprise Center, Wellston
- St. Louis Fashion incubator, St. Louis

In the past, Missouri has made other attempts at tax credits to support early-stage business. The Certified Capital Company tax credit was authorized in 1996 to incentivize insurance companies to invest in CAPCO venture capital firms. The New Enterprise Creation Tax Credit gave 100% tax credits for investment into early-stage venture funds. Both are no longer active. The Seed Capital Credit began in 1986 and was exhausted in 1999.

## ANGEL TAX CREDITS

Many of Missouri's neighboring states (Arkansas, Illinois, Iowa, Kansas) offer angel tax credits. The purpose of the Kansas Angel Investor Tax Credit Act is to incent equity investment in businesses in the early stages of commercial development. This mechanism assists in creating and expanding Kansas businesses, along with the jobs and wealth they create, by granting tax credits against Kansas investors' income tax liability.

Iowa also offers angel investor tax credits to increase the availability and accessibility of investment at the seed capital stage. Investors can receive up to $100,000 in tax credits each year for investing in qualified businesses. Arkansas passed legislation in 2007 to provide a tax incentive for equity investors. The Illinois Angel Investment Tax Credit Program provides for investors to get up to 25% of their investment as a tax credit.

## MISSOURI TECHNOLOGY CORPORATION

The Missouri Technology Corporation, a public-private partnership created by the Missouri General Assembly to promote entrepreneurship and foster the growth of new and emerging high-tech companies, acts as the statewide mechanism to support Missouri's innovative startups and growth-oriented firms. As the only statewide funding organization, MTC is well positioned to trigger the entire capital network for the state, driving additional dollars to companies in all parts of Missouri.

MTC provides early-stage capital to high-growth companies through its Missouri IDEA Funds program:

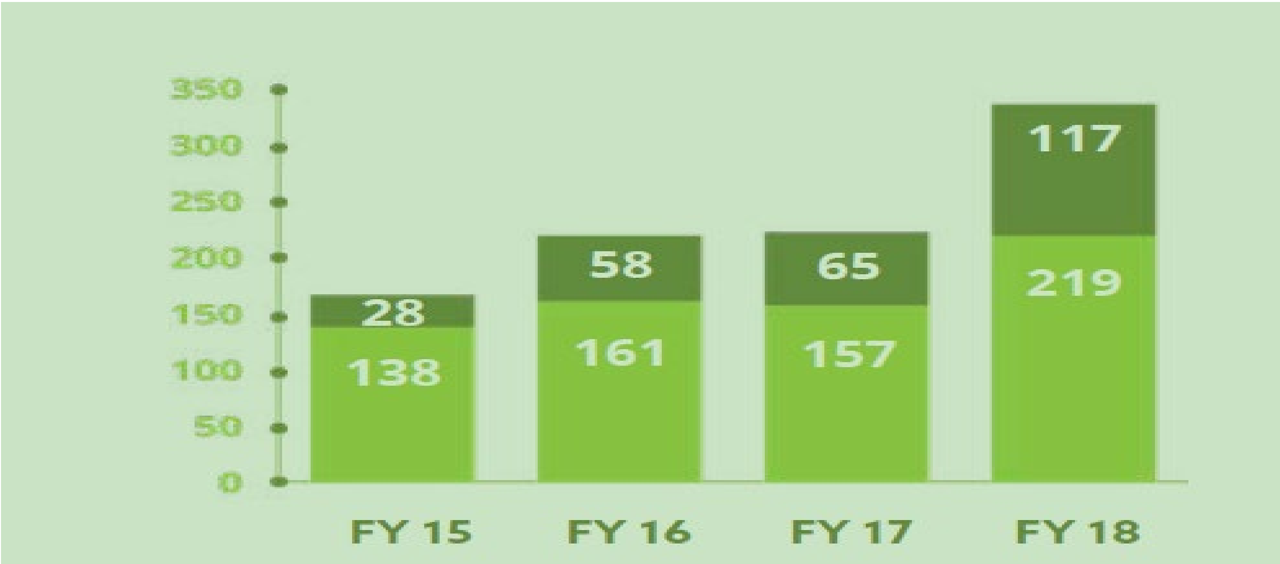
- TechLaunch – supports life science and technology startups through matching equity or convertible debt up to $100,000. Funding must be matched 1:1 and technology must be in animal health, plant science, biomedical science, applied engineering (software) or defense/homeland security.

- Seed Capital Co-Investment – funds technology startups up to $500,000 for the purpose of technology and business development. Funding must be matched 1:1 and technology must be in animal health, plant science, biomedical science, applied engineering (software) or defense/homeland security.
- Venture Capital Co-Investment – funds companies at the venture stage. Funding must be matched 1:1.
- High-tech Industrial Expansion – debt financing for expanding companies in tech industries. Funding must be matched 1:1.

According to the 2018 annual report, since 2011 MTC has co-invested in more than 120 companies which have leveraged the MTC funds to raise $600 million in additional private capital. Since 2015 these companies have created almost 1,000 jobs.[39]

[39] Missouri Technology Corporation Annual Report 2018, retrieved July 2019, https://www.missouritechnology.com.

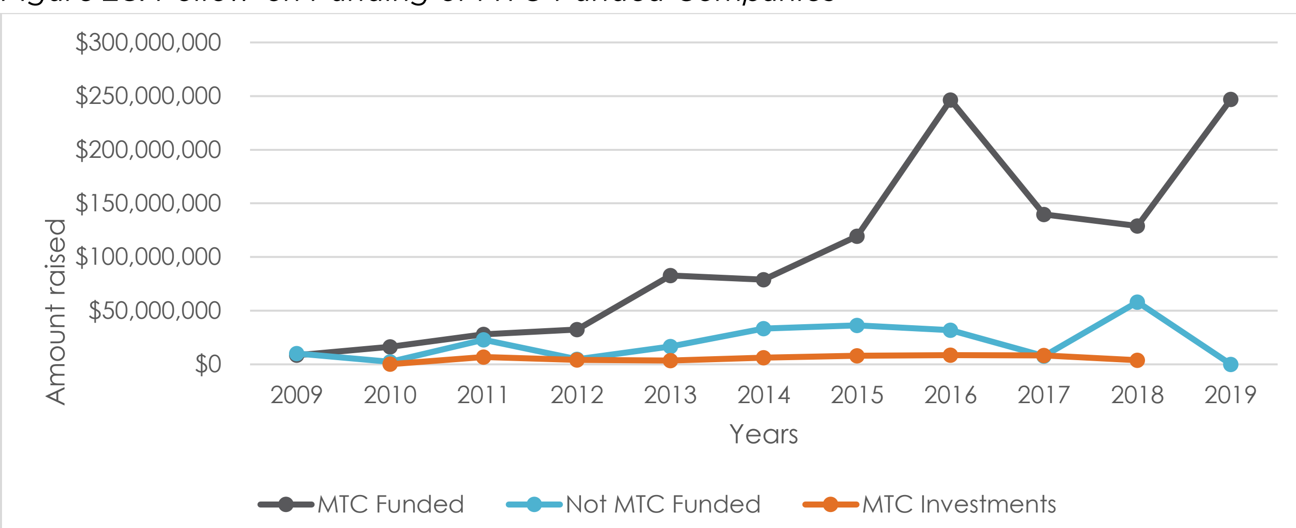
*Figure 27: Jobs Created by MTC-funded companies*




Part-time Jobs
Full-time Jobs

A study[40] of MTC-funded companies compared to those who applied to MTC but did not receive funding further illustrates the catalyzing nature of MTC investments. Those with MTC funding raised significantly more additional funding than those who did not receive MTC investments.

*Figure 28: Follow-on Funding of MTC-Funded Companies*




[40] Zero Barriers grant report, commissioned by the Ewing Marion Kauffman Foundation. Conducted by SourceLink 2019. Publication date fall 2019.

MTC also provides capacity-building grants to support organizations through its MOBEC program (Missouri Building Entrepreneurial Capacity). MTC makes strategic investments to help nonprofit organizations support entrepreneurs who are commercializing new technologies, attract more federal funding and create more high-paying private sector jobs. Programs such as Arch Grants in St. Louis, efactory in Springfield, Digital Sandbox in Kansas City, Marquette Tech District in Cape Girardeau and LaunchKC have received support through its MOBEC program. These programs combined to create 826 jobs through the end of 2018 and raised more than $478 million in follow-on funding since the founding of those programs. [41]

In addition, MTC funds nine innovation centers across the state, creating a network of organizations that spur innovative companies. (Kirksville, St. Joseph, Kansas City, Joplin and Columbia, St. Louis, Rolla, Springfield and Cape Girardeau). In 2018 innovation centers worked with companies that created 1,041 jobs, raised $273 million in private capital and $11 million in government grant funding[42].

The amount of funding MTC can offer in any given year is dependent upon the allocation it receives through the state's budgeting process. MTC's budget grew, and along with it the state's innovation economy, from $1.36 million in FY2013 to nearly $23 million in FY2017. In FY2017, the MTC budget was cut to $2.5 million and has stayed near that level since then. While MTC has had some reserves and returns to keep it active, these reductions in funding have curtailed programs, and it is currently only offering funding for TechLaunch, Seed Capital Co-Investment and through the MOBEC and Innovation Center programs.

## OPPORTUNITY ZONES

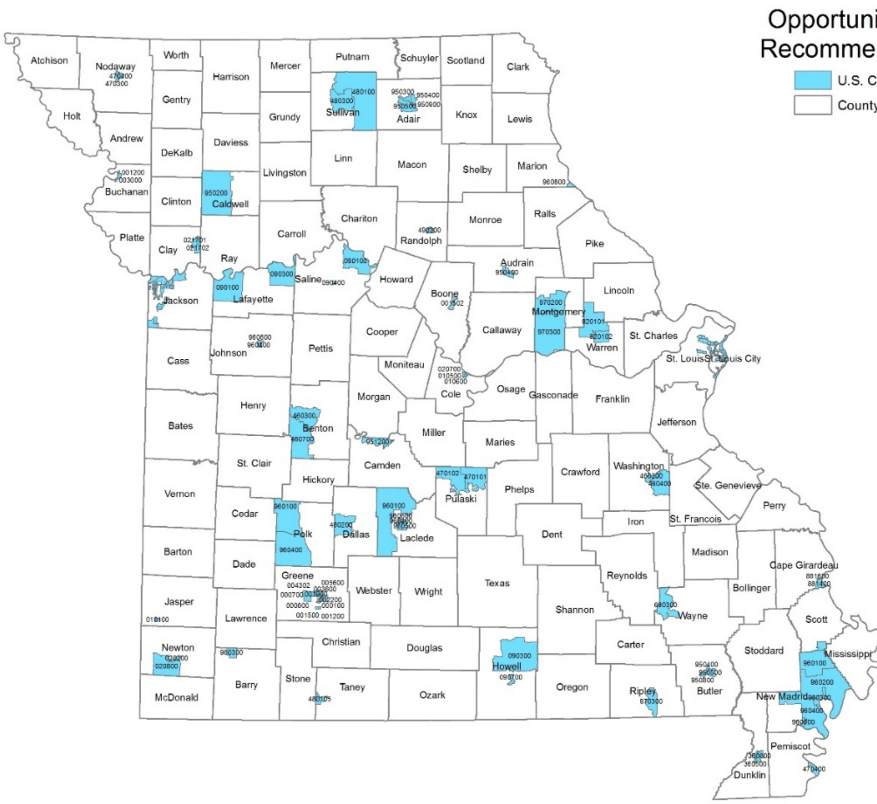
Opportunity Zones were established by Congress in the Tax Cuts and Jobs Act of 2017 to spur economic development and job creation in distressed communities. The Opportunity Zones program encourages long-term investment and job creation in low-income areas of the state by allowing investors to re-invest capital gains in designated census tracts.

[41] Missouri Technology Corporation Annual Report, 2018, https://www.missouritechnology.com/docs/default-source/programs/2018-annual-report.pdf?sfvrsn=d0fd2231_2.

[42] Ibid.

Investors interested in deferring capital gains can invest in funds that, in turn, can invest in real estate properties or in operating businesses within the opportunity zones. The option for direct investment in companies located within the Opportunity Zones offers the most benefit for entrepreneurs.

*Figure 29: Missouri Opportunity Zones*




Missouri has submitted 161 Opportunity Zones to the federal government for inclusion in the program. The state's ratio of urban-to-rural zones is nearly identical to the statewide ratio. Urban tracts represent 72% of the statewide total and 71% of the Opportunity Zone total. St. Louis has about 40 and Kansas City has about 25.

Counties with Opportunity Zones: [43]

- Adair
- Audrain
- Barry
- Benton
- Boone
- Buchanan
- Butler
- Caldwell
- Camden
- Cape Girardeau
- Clay
- Cole
- Dallas
- Dunklin
- Greene
- Howell
- Jackson
- Jasper
- Laclede
- Lafayette
- Marion
- Montgomery
- New Madrid
- Newton

[43] OpportunityDb, Opportunity Zones Database, retrieved July 2019, https://opportunitydb.com/location/missouri/

- Nodaway
- Pemiscot
- Polk
- Pulaski
- Randolph
- Ripley
- Saline
- Scott
- St. Louis
- Sullivan
- Taney
- Warren
- Washington
- Wayne

Many communities are working to put plans in place to capitalize on this investment opportunity. The city of St. Louis in conjunction with the St. Louis Development Corp., has released an Opportunity Zone prospectus. Kansas City, led by the Kauffman Foundation, has developed its own prospectus for investors and hosted an Investor Summit in June 2019. The city of Springfield is publicizing Opportunity Zones through its website.

In terms of funds, the National Council of State Housing Agencies lists almost 150 OZ funds.[44] Many of these funds are investing in real estate projects. For instance, Gateway Opportunity Fund in St. Louis has already invested in the Lighthouse Landing development and Maxus Opportunity Fund in Kansas City is targeting multifamily residential projects.

AltCap (Kansas City) established a new Opportunity Zone investment affiliate called Equity$^2$. This new fund will provide equity capital to provide direct investment into companies and accelerate the development of small businesses in Opportunity Zones.

## SMALL BUSINESS INVESTMENT COMPANY

SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. The U.S. Small Business Administration does not invest directly into small business through the SBIC Program, but provides funding to qualified investment management firms with expertise in certain sectors or industries. As of 2018, there were 308 licensed SBICs participating in the program.[45]

Investment funds licensed as SBICs currently have the option of applying for three different types of licenses:

- **Standard Debenture License:** Funds have been licensed as Standard Licensees since the program was founded in 1958. They have the broadest investment

[44] Opportunity Zone Fund Directory, National Council of State Housing Agencies, June 2019. Retrieved July 2019 https://www.ncsha.org/resource/opportunity-zone-fund-directory/
[45] SBA Small business Investment Company Program, Congressional Research Service, updated June 2018. https://crsreports.congress.gov/product/pdf/R/R41456/76

mandate, are licensed through a "rolling admissions" process and are eligible for two tiers of leverage capped at $150 million.

- **Impact Investment License:** The Impact License is for funds with an investment mandate targeting social and financial returns. The managers of these funds pledge to invest 50% of their capital in "impact" investments and are eligible for an expedited licensing process.
- **Early Stage Innovation License:** The Standard and Impact Licenses are most suitable for investors targeting later-stage companies with cash flow. The Early Stage Innovation License, created as part of President Obama's Start-Up America Initiative, is by contrast designed to attract investment fund managers with experience supporting companies in their earliest stages of growth. They have access to one tier of leverage, capped at $50 million and are licensed through an annual call (issued in December or January of each year) versus a rolling basis. This program aims to address the shortage of venture capital for emerging companies looking to raise between $1 million and $4 million, providing a 1:1 match to private capital raised by early-stage seed funds.

In fiscal year 2018, Missouri had 91 companies financed for a total of $108.9 million, up from FY2017 when the total number was 63 companies financed for a total of $85.7 million. Missouri ranked ahead of most neighboring states, but lags far below the top SBIC funded states.

*Figure 30: Missouri Ranks Near Top in SBIC Funding, FY2018*

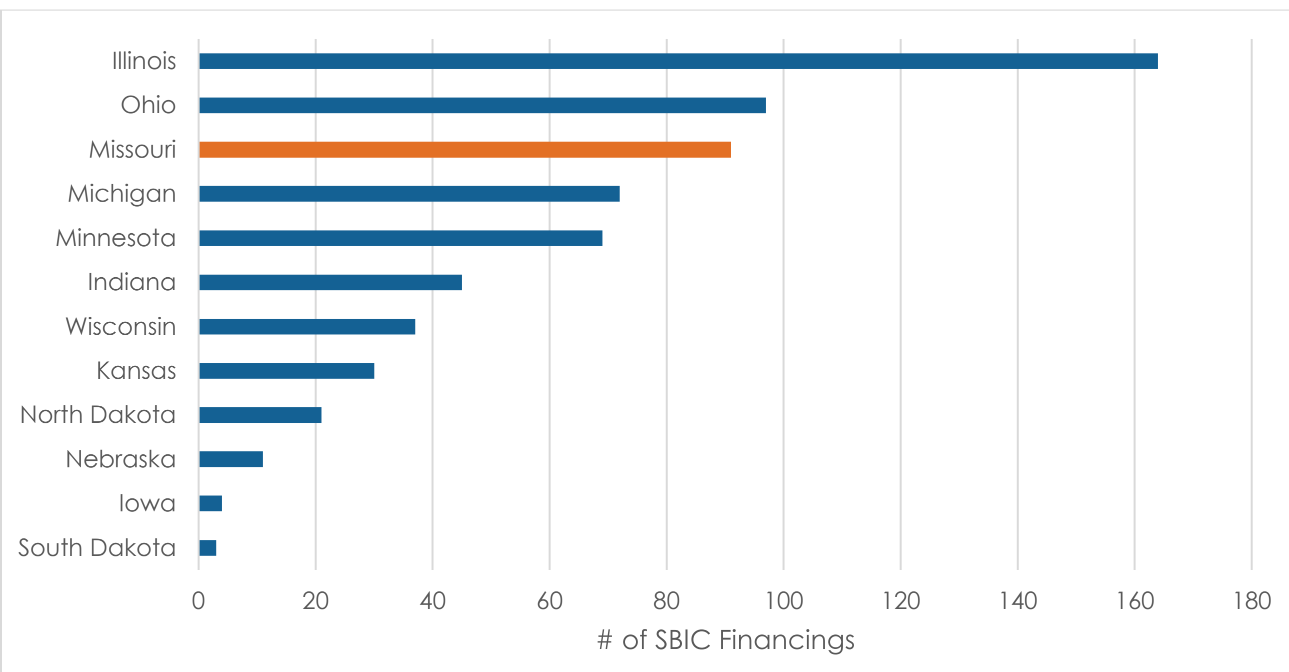
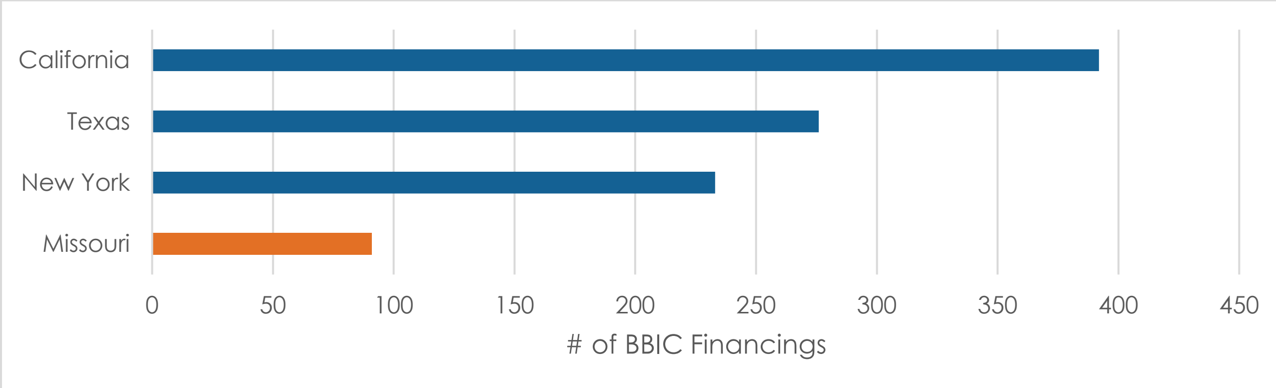


*Figure 31: Missouri Lags in Top States of SBIC funding, FY2018*




SBICs in Missouri that are listed as likely to be actively investing: [46]

- C3 Capital Partners, Kansas City
- CFB Venture Fund, St. Louis
- Cultivation Twain Seed Fund, St. Louis
- Eagle Fund, St. Louis
- Holleway IPA Fund, St. Louis

# ANGEL INVESTORS

Angel investors are high net worth individuals who provide capital to high growth potential startup and early stage businesses, usually in exchange for equity or convertible debt. Angels generally invest their own money, often making investments in the range of $5,000 to $100,000.[47]

Many individual angel investors work independently, are not associated with angel networks or funds and may be hard to access due to lack of visibility. Angel investors often provide mentorship and may get involved in business operations. Many are former successful entrepreneurs.

## ANGEL GROUPS

Some angel investors come together to form angel groups or angel networks to share due diligence and pool investment dollars. Angel groups can make investments in the mid-range, between what most individual angels and VCs invest, and will partner to

[46]U.S. Small Business Administration, Investment Capital List, retrieved July 2019, https://www.everycrsreport.com/files/20190404_R41456_f6016a0511589b7200622859e64f41cf666ac761.pdf.
[47]Angel Capital Association, *FAQs on Angel Investing*, Feb. 21, 2015, retrieved July 2017, http://www.angelcapitalassociation.org/entrepreneurs/faq.

match state and local incentive programs.[48] The average member group of the Angel Capital Association invested a total of $2.42 million in 9.8 deals in 2015.

Many angel groups co-invest with other angel groups, individual angels and early-stage venture capitalists to make investments of $500,000–$2 million per round.[49]

Angel investors are active in Missouri, primarily in the Kansas City, Columbia and St. Louis regions. Frequently angel groups co-invest to meet the needs of early-stage companies. Individuals with the potential to invest who live in other parts of the state could be activated by the development of other regional angel groups or by the expansion of existing angel groups, such as the St. Joseph chapter of Mid-America Angels.

KC-NWMO:

- Mid-America Angels (MAA) is a regional network of angel investors dedicated to identifying and funding the most promising start-up business opportunities in the Kansas-Missouri region.
- The Northland Angel Investor Network seeks to match financial capital and assistance with qualified start-up and emerging-growth companies of Clay County, Missouri, which is part of Kansas City's Northland area.
- The St. Joseph Angel Capital Group, LLC is affiliated with Mid-America Angels and consists of local investors. The angel funding group considers investments in early stage companies located in the region.
- Women's Capital Connection, launched in 2008 as one of the country's first women's investment groups, invests in women-led businesses primarily in the Midwest.

NEMO-Central:

- The University of Missouri-Columbia sponsors the Allen Angel Capital Education program. AACE invests real dollars in startup businesses. No affiliation with the University is needed. The average investment is $50,000.
- Centennial Investors in Columbia was created to meet the early capital needs of university and private sector entrepreneurs. The organization helps exciting ideas get to market.

St. Louis:

- Billiken Angel Network is part of the John Cook School of Business at Saint Louis University. Operations started in 2008 with 20 angel investors and a $1 million

[48] Ibid.
[49] Ibid.

sidecar investment fund made available from the University's endowment. This fund is currently inactive.

- The mission of the St. Louis Arch Angels is to provide opportunities for our members to obtain outstanding financial returns by investing in early-stage companies with high growth potential in the St. Louis region and accelerating them to market leadership.

A recently formed group in Columbia, COMO Women's Investment Network for Entrepreneurs, is looking at investing in women-led startups.

### SUPER ANGELS

Given the time commitment required for each investment, venture capital firms often will not invest initial amounts below $1 million. Given that multiple rounds of investment are often required for each deal, angel investors are often reluctant to make initial investments between $250,000 and $1 million. In some regions, Super Angels have stepped in to fill this gap. These are experienced investors with greater means that either invest their own capital or invest larger amounts cooperatively with other like-minded individuals.

Collaboration Capital in Kansas City and iSelect in St. Louis function like Super Angels, bringing together investors for the purpose of generating additional investment for startup companies.

## VENTURE CAPITAL FUNDS

Venture capital firms comprise "general partners" who invest funds provided by other "limited partner" investors. Examples of limited partner investors include pension funds, insurance companies, foundations and ultra-high-net-worth individuals. Venture capitalists generally make larger investments, usually above $2 million, in a financing round.[50]

Missouri ranks well below the top states receiving venture capital in 2018,[51] with 150 deals compared to 3,556 in California, but relatively high in terms of Midwestern states. Missouri firms raised $1.3 billion in 2018.

[50] Ibid.

[51] Data from CBInsights, includes private equity and some grants.

*Figure 32: Missouri Lags in Top Performing States of VC Funds, 2018*

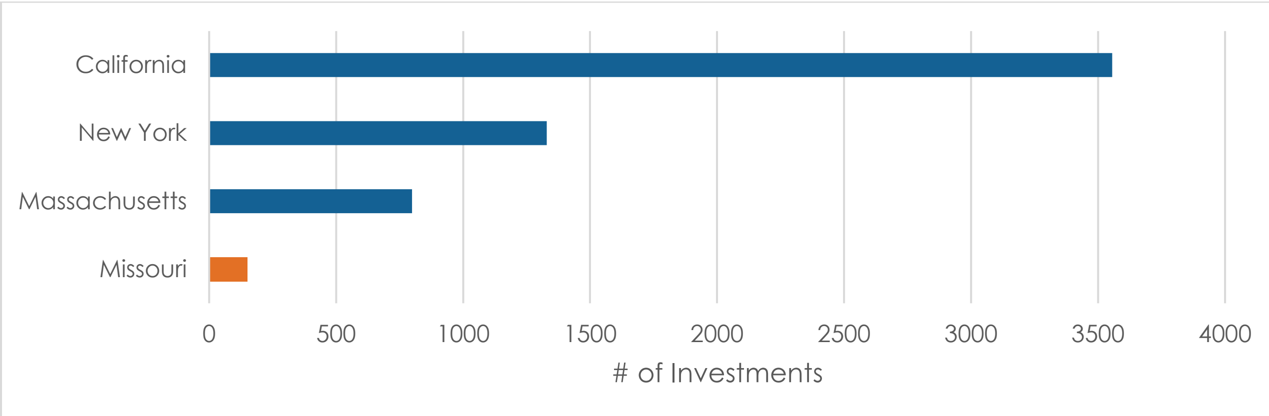
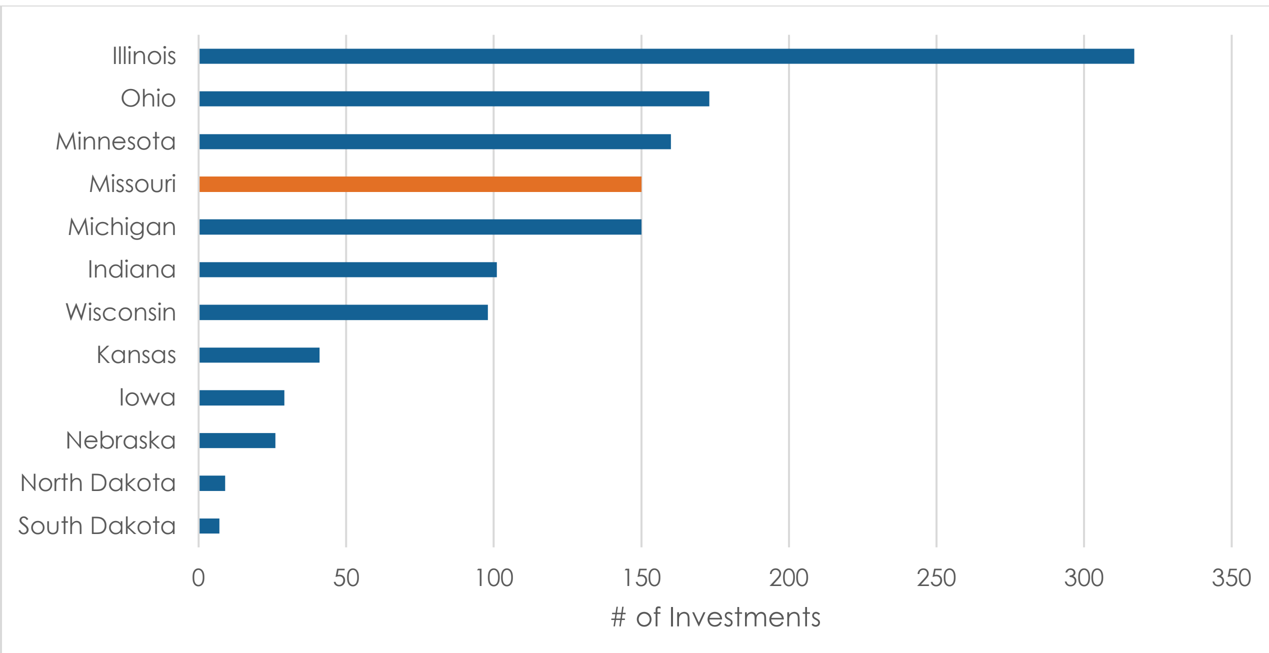
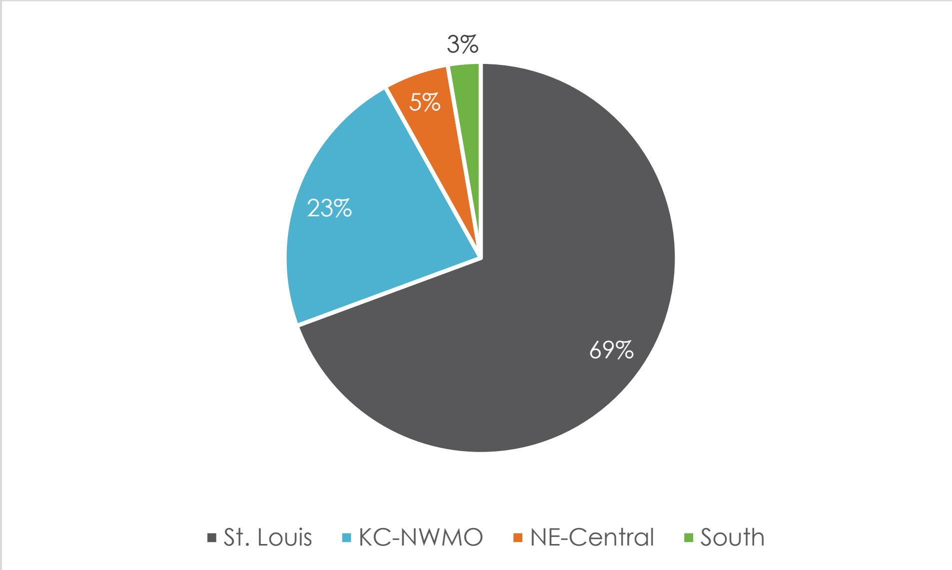



*Figure 33: Missouri Ranks No. 4 iin Number of VC Deals, 2018*



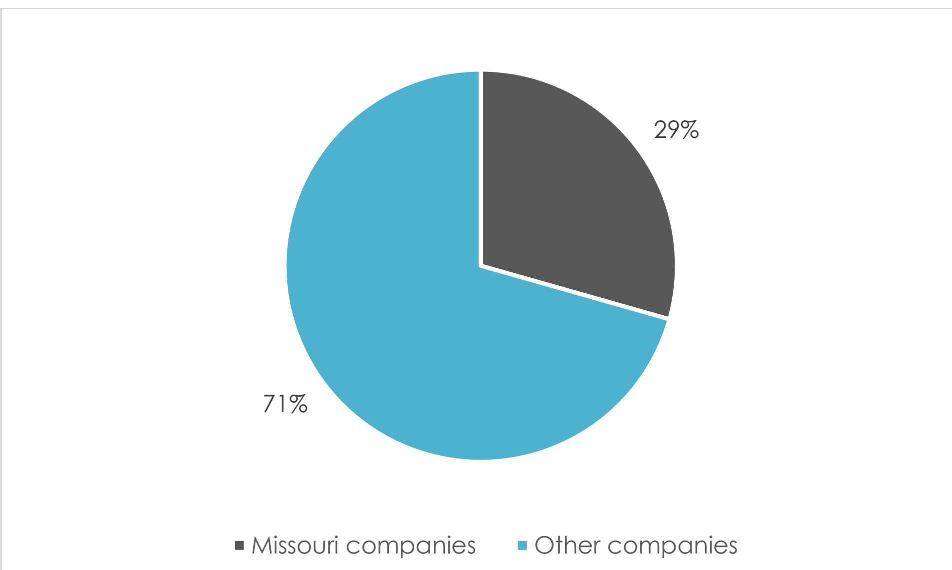

Within the state, the St. Louis area leads the way with 77 deals in 2018, followed by the Kansas City-Northwest region with 25.

*Figure 34: Number of VC deals by region, 2018*




From 2014-2018, 34 Missouri-based venture capital firms made a total of 450 equity investments.[52] Of those investments, about 30% (188) were in Missouri-based companies.

*Figure 35: Missouri VC Investments in Missouri-based Companies*




52 Data from CBInsights. Includes venture capital, private equity and corporate investments. Does not include angel investments, accelerators and grant programs.

BioGenerator in St. Louis was the most active venture capital investor from 2014-2018 with 84 investments, 82 of which were in Missouri companies. During that same time frame, 13 Missouri-based corporations made 27 investments. The chart below reflects individual venture capital investment deals; some investors may have multiple deals with one company.[53]

*Figure 36: Missouri-Based Venture Capital Funds, Early Stage*

| Firm | First Recorded Investment | Investing profile | Deals 2014-2018 | Missouri | Average deal size[54] |
|---|---|---|---|---|---|
| **Arsenal Capital Management** | 2011 | Arsenal Capital Management is a St. Louis, Mo.-based venture capital firm. | 17 | 14 | $3MM |
| **BioGenerator** | 2004 | BioGenerator invests in St. Louis-based bioscience startupsin staged fashion across a range of stages of company maturity (pre-seed, seed, bridge, Series A) | 84 | 82 | $4.5MM |
| **Bodley Group** | 2012 | Bodley Group seeks superior returns through investments in private companies with favorable positioning in niche markets. The firm invests capital in buyouts, growth financing and seed/early-stage investments. | 4 | 0 | $1.25MM |
| **Common Place Holdings** | 2012 | CPH is a St. Louis business incubator focused on the biotech industry. The objective of CPH is to identify, nurture and grow ideas into companies that can then raise Series A capital as an independent entity. No longer making investments. | | 8 | |
| **Cultivation Capital** | 2012 | Cultivation Capital is an early stage venture capital firm managed by entrepreneurs seeking to partner with the | 72 | 34 | $5MM |

[53] Blanks in the charts indicate data was not available.

[54] Average deal size refers to the average aggregate of the deal. In some deals, the investor is the sole investor; in others a co-investor.

| | | | | | |
|---|---|---|---|---|---|
| | | next generation of founders. Cultivation Capital makes seed-stage investments of up to $100,000 that allow entrepreneurs to validate business models through two programs, one for seed stage companies (Early Execution) and one for pre-A round investments (Catalyst). Two separate groups handle investment for tech and for life sciences. | | | |
| **Evergy Ventures** | 2016 | Evergy Ventures is the non-regulated investment affiliate of Evergy, the parent company of Kansas City Power & Light (KCP&L) and Westar Energy. The company's investment portfolio includes a wide range of businesses, with a particular focus on exploring unique opportunities that are aligned with Evergy's core mission to foster energy that moves us forward. | 8 | 1 | $12MM |
| **FTL Capital** | 2001 | No longer investing. | 2 | 2 | $3MM |
| **Helix Fund** | 2014 | The $1.5 million Helix Fund co-invested to promote the growth of bioscience and related technology businesses in St. Louis County. No longer active. | 4 | 4 | $1MM |
| **Holton Capital** | 2012 | Rick Holton is co-founder of Cultivation Capital. | 2 | 1 | $4MM |

| | | | | | |
|---|---|---|---|---|---|
| **iSelect** | 2014 | The iSelect Fund provides qualified individual investors with access to a diversified portfolio of promising early-stage private venture investments that have been evaluated by an elite committee of successful entrepreneurs and accomplished venture investors. | 33 | 19 | $3.4MM |
| **KCRise Fund** | 2016 | KCRise was created as a solution to the regional challenge of accessing capital. Firms must "have high growth potential" and must reside or have substantial operations between Manhattan, Kansas, and Columbia, Missouri, seeking at least $1 million and have an approved venture capital firm investor. | 15 | 15 | $5MM |
| **Kingdom Capital** | 2016 | Kingdom Capital is a venture capital firm based in St. Louis, Mo. The firm seeks to invest in the health care, therapeutics, medical devices, diagnostics, healthcare tech and life science tools sectors. | 1 | 1 | $750K |
| **Lindbergh Technology Fund** | 2016 | Lindbergh Technology Fund provides follow-on investments to Capital Innovators' portfolio companies. | 2 | 2 | $1.5MM |
| **Oakwood Medical Investors** | 1998 | Oakwood Medical Investors was a life sciences venture capital fund formed to invest in development stage medical device, biopharmaceutical and healthcare service companies. No longer active. | 6 | 2 | $5MM |

| | | | | | |
|---|---|---|---|---|---|
| **ProLog Ventures** | 2011 | Prolog was a venture capital firm specializing in life sciences. It invested in traditional healthcare opportunities as well as emerging areas -- such as nutrition, wellness, and green technology. Inactive. | 28 | 8 | $6MM |
| **RiverVest Archer Fund** | 2016 | A pre-seed and seed fund investing early-stage biopharmaceutical companies. The fund's investment opportunities are primarily sourced from business incubators or accelerators associated with leading medical research institutions in St. Louis and elsewhere in the Midwest. | | | |
| **Synchony Bio** | 2018 | An early-stage bioscience investor with expertise in specific industry sectors such as diagnostics. | | | |
| **Vectis Healthcare & Life Sciences Fund** | 2010 | Vectis Healthcare and Life Sciences Fund was a St. Louis-based fund investing in venture capital and private equity funds and direct co-investments. No longer active. | 4 | 3 | $15MM |
| **Visionary Private Equity** | 2018 | Visionary Private Equity Group (VPEG) invests in early stage, high growth companies that have strong management teams and the potential for significant upside. | 2 | | $5MM |

*Figure 37: Missouri-Based Venture Capital Funds, Later Stage*

| Firm | First Recorded Investment | Investing profile | Total deals | Missouri | Average deal size |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| **3x5 Special Opportunity Fund** | 2013 | 3×5 Special Opportunity Fund is a St. Louis and Portland-based, closed-end private investment fund focused primarily on direct investments in later-stage companies within the healthcare and clean-tech sectors. | 14 | 0 | $23MM |
| **Ascension Ventures** | 2001 | Ascension Ventures, a wholly owned subsidiary of Ascension Health, is a strategic health venture fund specializing in venture and growth equity investments in healthcare information technology and services, and medical devices and diagnostics. | 28 | 2 | $20MM |
| **B12 Capital Partners** | 2011 | B12 Capital Partners is a private equity fund looking to partner with owners and managers of manufacturing and distribution companies with $5 million–$50 million in revenue. | 1 | 0 | |
| **C3 Capital Partners** | 2004 | C3 Capital Partners focuses in chemicals, energy, business services, distribution and high valued-added manufacturing. | 0 | 0 | $3MM – $10MM |
| **Five Elms Capital** | 2011 | Five Elms provides expansion capital to technology-enabled services, financial services, marketing services, logistics and software as a service (SaaS) companies. | 14 | 1 | $7MM |
| **FS (Franklin Square) Investments** | 2014 | FS Investments, formerly Franklin Square Capital Partners, is a manager of alternative investment funds designed to enhance investors' portfolios by | 13 | 0 | $75MM |

| | | | | | |
|---|---|---|---|---|---|
| | | providing access to asset classes, strategies and asset managers that typically have been available to only the largest institutional investors. | | | |
| **Lewis & Clark Ventures** | 2016 | Lewis & Clark Ventures is an early-stage high-growth venture capital firm based in St. Louis. The firm plans to invest in high-growth companies for between $3 million and $7 million. | 22 | 4 | $9MM |
| **Bayer Growth Venture (formerly Monsanto Growth Ventures)** | 2012 | Bayer Growth Venture is the venture capital group at Monsanto Company. BGV aims to help nascent companies grow through capital and leveraging Monsanto's agriculture know-how and resources. | 22 | 3 | $16MM |
| **Novation Companies** | 2012 | Novation Companies owns and operates early-stage businesses in the technology-enabled services industry. | 2 | 0 | $30MM |
| **OpenAir Equity** | 2010 | OpenAir Equity Partners is a venture capital and private equity firm solely focused on the wireless, communications and mobile Internet sectors. | 10 | | $12.82MM |
| **RiverVest Partners** | 2000 | RiverVest Venture Partners focuses exclusively on life sciences, in particular in the medical device and biopharmaceutical industries. | 29 | 0 | $23MM |
| **Sage Capital Partners** | 1999 | Sage Capital Partners is a private equity investment firm with committed capital that seeks to invest in lower middle-market companies. Sage Capital Partners | 2 | 0 | $20MM |

| | | | | | |
|---|---|---|---|---|---|
| | | actively pursues investment opportunities across several industry sectors, including consumer products, business services and manufacturing. | | | |
| **TGP Capital Partners** | 2010 | TGP Capital Partners is a private equity investment fund with $56.5 million under management. The fund has a distinct focus on general manufacturing and business services companies, with addressable markets of at least $300MM and revenues between $15MM–$50MM. Not considered: financial institutions, real estate, retail, startups. | 9 | 5 | $3MM-$10MM |
| **TradeBot Ventures** | 1999 | TradeBot Ventures seeks opportunities that strategically align with current business and investments. | | | |
| **Yield Lab** | 2019 | First close on YL Opportunity Fund in 2019. Venture investor in ag sector. | | | |

*As of 2018, compiled from CB Insights and company websites*

In addition, 22 regional and national venture capital funds made investments in at least two Missouri companies during 2012-2018.

*Figure 38: Regional and National VCs Investing in Missouri-based Companies*

| Firm | First Recorded Investment | Investing profile | Total deals | Missouri | Average deal size |
|---|---|---|---|---|---|
| **Advantage Capital (New Orleans)** | 1998 | Advantage Capital provides equity and debt financing to established and emerging companies located in communities underserved by conventional sources of capital. | 49 | 2 | |
| **Alumni Ventures Group (New Hampshire)** | 2014 | Alumni Ventures Group creates and manages alumni venture capital funds. Its funds are private, for-profit, and not affiliated with their respective school. | 100+ | 2 | |
| **Atlas Venture (Boston)** | 1997 | Atlas Venture is an early stage venture capital firm investing in biotech innovation. | 100+ | 2 | |
| **Black Creek Capital (Denver)** | | Denver-based firm that invests in life sciences. | ? | 2 | |
| **Dundee Capital (Omaha)** | 2010 | Dundee Venture Capital is an Omaha, Nebraska venture fund and invests in e-commerce and software companies. | 17 | 5 | $2MM |
| **Flyover Capital (Kansas)** | 2015 | Flyover Capital invests in early stage growth technology companies in the Midwest. Flyover's experienced team applies a unique combination of fund management and operational expertise to identify early stage technology opportunities. | 8 | 3 | $2.85MM |
| **Mercury Fund (Houston)** | 2000 | Mercury Fund is a seed-stage venture capital firm | 57 | 4 | |

| | | | | | |
|---|---|---|---|---|---|
| | | that makes equity investments in compelling and novel software and science-based startup opportunities. | | | |
| **M25 Group (Chicago)** | 2016 | M25 Group is a Midwest, seed-stage micro-VC firm. M25 Group seeks to responsibly steward investors' capital by sourcing alternative investments with substantial potential to multiply. | 33 | 3 | |
| **New Enterprise Associates (Menlo Park)** | 1991 | New Enterprise Associates (NEA) provides venture capital to help entrepreneurs and business leaders build transformational, industry-leading companies around the world. | 200+ | 2 | |
| **Novo Ventures (San Francisco)** | 2000 | Corporate venture arm of Novartis. Invests in companies developing therapeutics. | 100+ | 2 | |
| **Open Prairie Ventures (Effingham, Illinois)** | 2000 | Open Prairie Ventures provides early-stage venture capital to promising growth technology companies disciplined in efficient use of capital and pursuit of disruptive innovations. | 10 | 3 | $15MM |
| **Pelion Venture Partners (Salt Lake City)** | 2008 | Pelion is an early-stage venture capital firm bent on exceeding the expectations of unapologetic entrepreneurs who shoot for the moon. | 74 | 2 | |
| **Prelude Ventures (San Francisco)** | 2014 | Prelude Ventures invests in companies that address the critical need for innovation | 37 | 5 | |

| | | | | | |
|---|---|---|---|---|---|
| | | across the global energy ecosystem. | | | |
| **Quake Capital (New York)** | 2016 | Quake Capital makes investments in new and early stage ventures across a number of industries. | 100+ | 3 | |
| **Royal Street Ventures (Salt Lake City)** | 2012 | Royal Street Ventures, formerly Royal Street Investment & Innovation Center, focuses on companies innovating in sectors that have become staid, brands providing new and real value to consumers, and entrepreneurs who share our passion for creating great businesses. | 21 | 5 | $2–3MM |
| **S2G Ventures (Chicago)** | 2017 | Seed 2 Growth (S2G Ventures) is a multi-stage venture fund investing in transformative food and agriculture companies whose products and services meet shifting demands for healthy, sustainable, and local food. | 45 | 3 | |
| **Serra Ventures (Champaign, Illinois)** | 2007 | Serra Ventures is a professional advisory firm offering a suite of services to the middle market, with a special emphasis on early stage and emerging high technology companies. | 39 | 2 | |
| **Syngenta Ventures (Switzerland)** | 2013 | Corporate venture arm of company Syngenta. Invests in ag startups. | 24 | 2 | |

| | | | | | |
|---|---|---|---|---|---|
| **Technology Acceleration Partners (TechAccel - Kansas)** | 2015 | Technology Acceleration Partners (TechAccel) is a novel concept in the agriculture, animal health and food sectors addressing shifting global demographics in developed and major developing countries and associated increased demand for food, as well as higher quality diets. | 6 | 3 | |
| **Versant Ventures (San Francisco)** | 1998 | Versant Ventures is a healthcare investment firm committed to helping exceptional entrepreneurs build the next generation of great healthcare companies. | 100+ | 3 | |
| **Ward Ventures (Dallas)** | 2016 | Ward Ventures invests angel and venture capital in entrepreneurs and management teams seeking capital to accelerate the growth of their company. | 5 | 3 | $20MM |
| **Y Combinator (Mountain View)** | 2005 | Silicon Valley-based accelerator that invests in early-stage companies across multiple industry sectors, with a track record of generating significant follow-on funding. | 100+ | 2 | |

# FAMILY FUNDS

A subset of equity investors are family funds. The term "family office" can refer to a family controlled investment group or the entire range of activities involved in managing a single family's fortune. Family offices typically manage investments, taxes, philanthropic activities, trusts and legal matters. The office can manage a single family's interests or those of multiple families. Some family members are very engaged in the day-to-day management of affairs.

Family offices are arguably the fastest growing investment vehicles in the world today,[55] according to the EY Family Office Guide. That same report estimated the number of family offices worldwide in 2016 at 10,000. As family offices look to diversify their investments in stocks and real estate, early-stage ventures and private companies provide another option. In 2017, almost 30% of the average family office portfolio was made up of equity investments.[56] That report also noted that social and environmental impact is becoming increasingly important.

Investing by family offices in Missouri is not well documented. Many do not advertise that they invest in early-stage companies and many family office investments do not get reported through public avenues.

Significant research has uncovered about 20 family offices in the Kansas City area that are investing in private companies or early-stage venture funds. Several of these offices are located in Kansas, but invest across the state line. In St. Louis, family offices are beginning to express interest in early-stage investing but the offices are not extremely visible. World Wide Technology founder David Steward's Kingdom Capital last year co-led a biotech startup investment.

Connecting the family offices to the entrepreneurial ecosystem and making them more accessible could lead to more investment in early-stage companies.

[55] EY Family Office Guide, 2016. Retrieved July 2019 https://www.ey.com/Publication/vwLUAssets/ey-family-office-guide/$FILE/1006031-family-office-guide-hr.pdf
[56] The Global Family Office Report, UBS and Campden Research, 2017. Retrieved July 2019 https://www.ubs.com/global/en/wealth-management/uhnw/global-family-office/global-family-office-report-2017.html

## GRANT AND EQUITY INVESTING: WHERE WE ARE TODAY

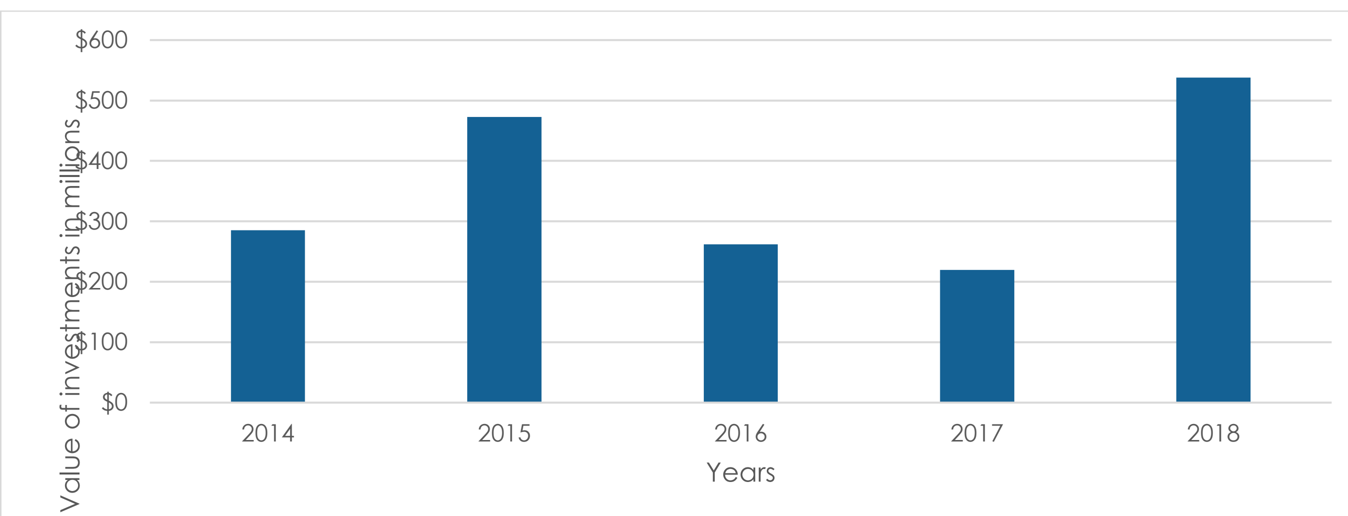
Tracking equity funding can be more of an art form than a science. Information can be derived from several sources including databases like PitchBook and CB Insights, which gather data from SEC files, local media and the business owners themselves. In addition, some information is in the public realm and some is private. Therefore, it is difficult to gain a full and complete picture of early-stage equity funding in a given region. Sometimes there is a lag in reporting, which results in underreporting.

It can also be difficult to determine the stage of any individual funding round. In this report, investments are grouped by monetary value rather than stages (seed, Series A, etc.).

### NUMBER AND VALUE OF DEALS

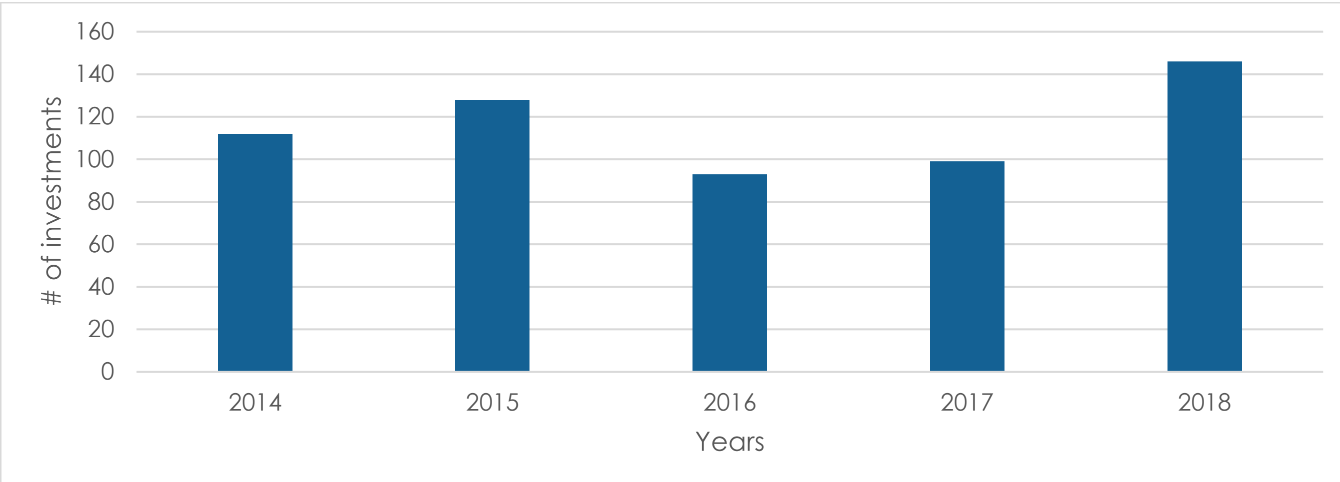
Based on public sources, 146 Missouri companies received $537,770,000 in grant and equity funding in 2018. [57] In the past five years, the total companies receiving investment is 578 and the total value of all funding is more than $1,777,810,000. In addition, five companies went through an IPO during that timeframe. As would be expected, the funnel narrows as companies move along the funding continuum, with more companies raising money at the lower amounts and fewer raising large rounds of capital.

*Figure 39: Value of VC investments tops $537MM in 2018 (without IPO)*




[57] Funding data from CBInsights, which includes publicly and SEC-reported equity deals and some grants. The data does not include mergers, acquisitions, investments of more than $100MM or IPOs.

*Figure 40: Number of Deals by Year*




In addition to looking at the cumulative number of investments/grants and the value, it's interesting to see how much money is invested and how many deals are made at various stages of development. Rather than use terms such as seed, Series A or Series B, the data has been separated by the value of the deal (<$100,000, $100,000-$1 million, etc.) This approach provides a better ability to compare year to year, since there is no consistent definition of seed, Series A, etc.

*Figure 41: Value of Deals by Investment Level*

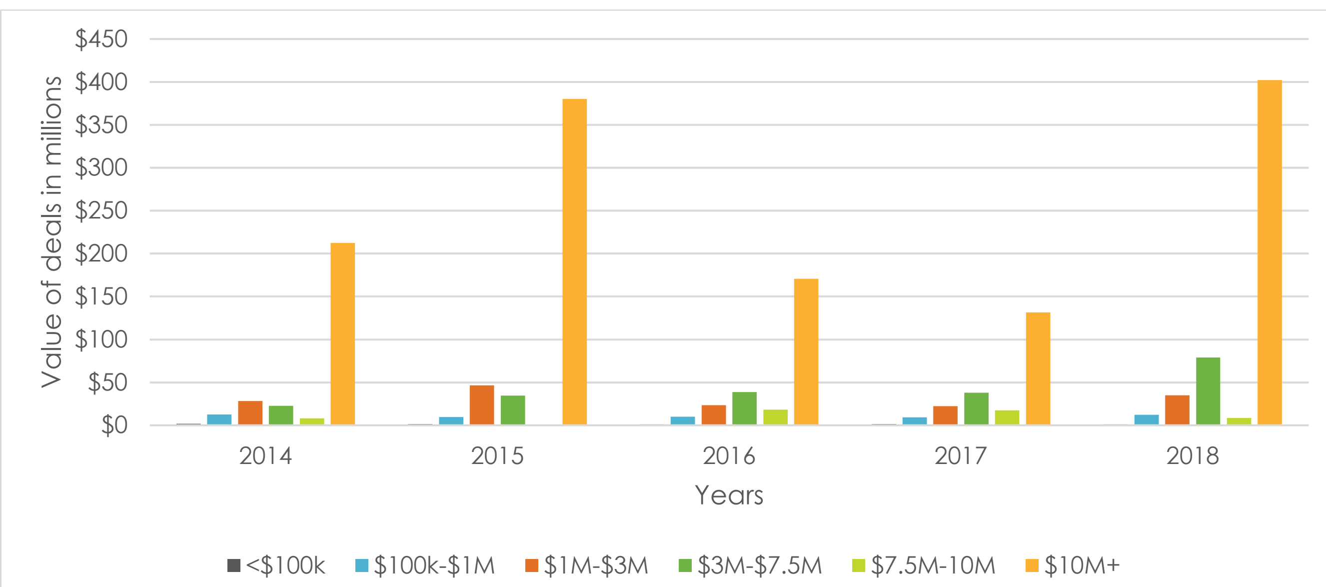
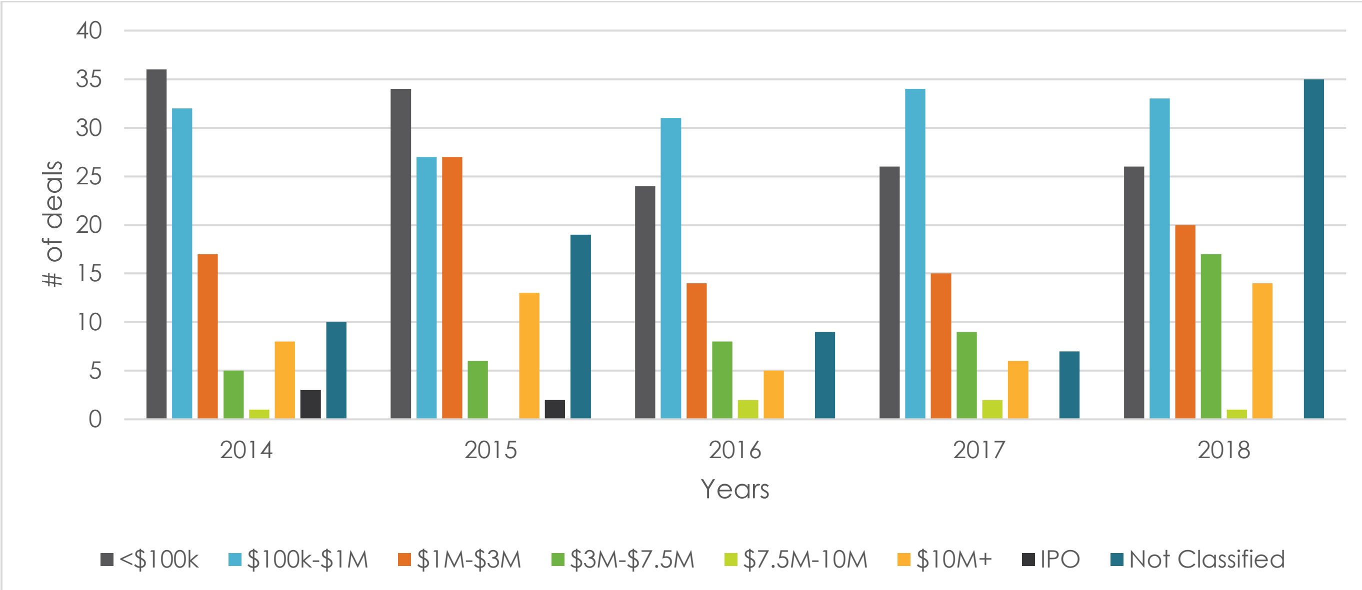


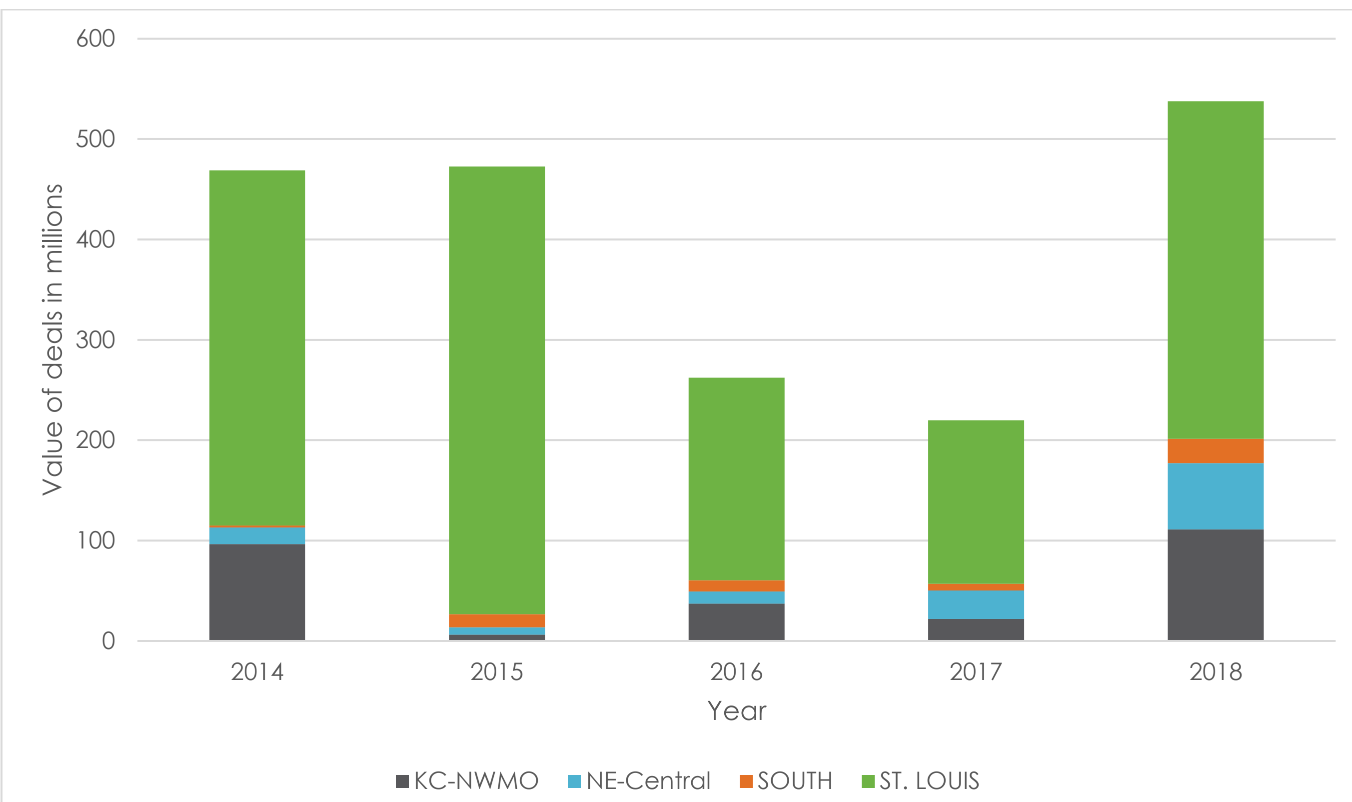
*Figure 42: Number of Deals by Investment Level*




## DEALS BY REGION

St. Louis leads the state in value of deals by region by a significant margin. The Kansas City-Northwest region and the Central-Northeast region both saw increases from 2017 to 2018.

*Figure 43: Value of Deals by Region*



## DEALS BY INDUSTRY SECTOR

The Internet sector leads the number of deals by industry sector and in value of deals. Healthcare and Mobile/Telecommunications are the next largest in number of deals. Healthcare, Leisure and Financial are the next largest in terms of value of deals. Note that the industry designations are based on federal industry classifications. Tech businesses are more easily divided into several categories (software, internet, mobile and telecommunications) while bioscience businesses may show up under healthcare or be hidden within a category like business products and services as many biosciences firms are classified within one of its sub-categories as research and development.

*Figure 44: Number of Deals by Industry Sector*

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| | | | | | |
| Metals & Mining | 0 | 0 | 0 | 0 | 0 |
| Risk & Security | 0 | 0 | 0 | 0 | 1 |
| Environmental Services & Equipment | 0 | 0 | 0 | 2 | 0 |
| Retail (non-internet/mobile) | 1 | 0 | 0 | 0 | 2 |
| Energy & Utilities | 0 | 0 | 0 | 2 | 2 |
| Leisure | 1 | 0 | 2 | 1 | 0 |
| Food & Beverages | | 2 | | 1 | 3 |
| Automotive & Transportation | 5 | 2 | | | |
| Electronics | 1 | 3 | 0 | 1 | 4 |
| Agriculture | 1 | 3 | 2 | 3 | 5 |
| Business Products & Services | 2 | 2 | 1 | 3 | 6 |
| Industrial | 4 | 8 | 1 | 4 | 5 |
| Computer Hardware & Services | 8 | 4 | 6 | 2 | 3 |
| Financial | 3 | 6 | 5 | 4 | 10 |
| Consumer Products & Services | 2 | 6 | 6 | 9 | 8 |
| Software (non-internet/mobile) | 4 | 4 | 4 | 4 | 15 |
| Mobile & Telecommunications | 13 | 18 | 21 | 9 | 11 |
| Healthcare | 21 | 31 | 15 | 9 | 23 |
| Internet | 46 | 39 | 30 | 45 | 48 |
| Grand Total | **112** | **128** | **93** | **99** | **146** |

*Figure 45: Number of Deals by Sector, Top 5 Sectors, 2014-2018*

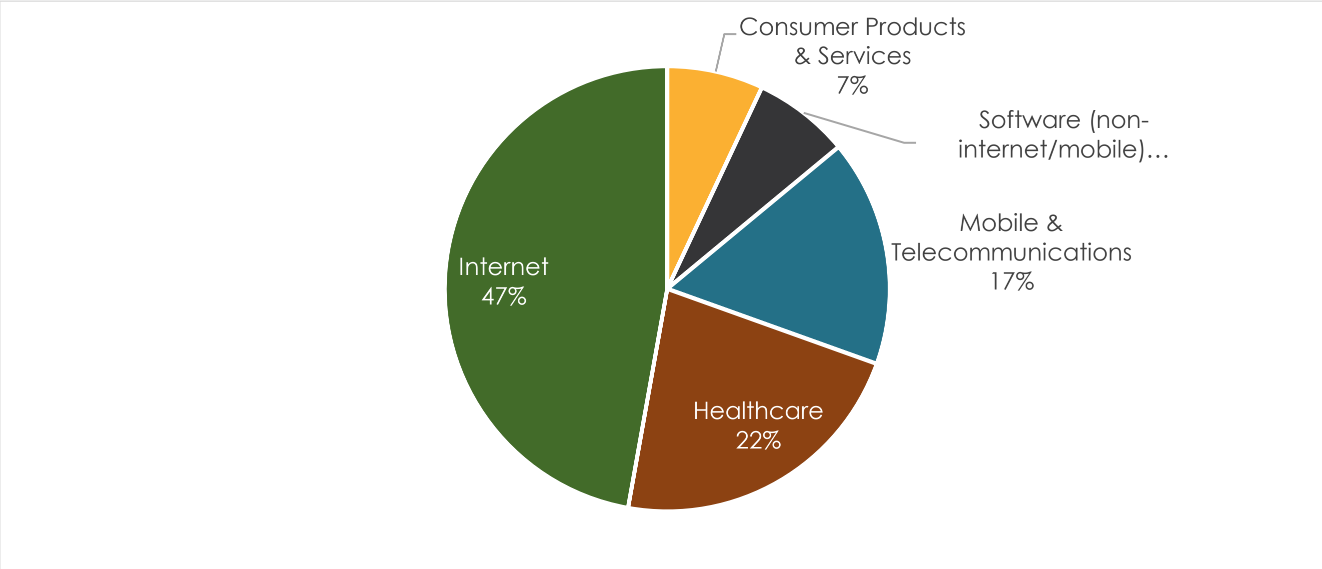
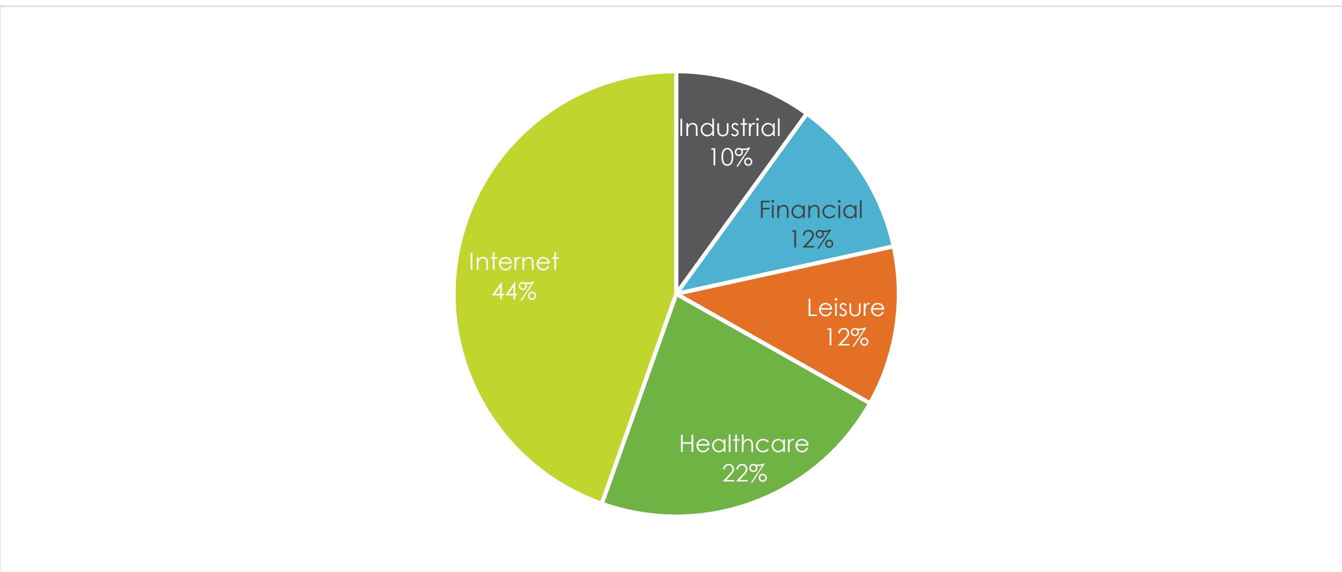



*Figure 46: Deals by Industry Sector ($)*

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Metals & Mining | | | | | |
| Risk & Security | | | | | $50,000 |
| Environmental Services & Equipment | | | | $100,000 | |
| Food & Beverages | | $730,000 | | $100,000 | $50,000 |
| Energy & Utilities | | | | $6,800,000 | $400,000 |
| Agriculture | $1,490,000 | $2,680,000 | $230,000 | $4,430,000 | $2,970,000 |
| Automotive & Transportation | $13,150,000 | $50,000 | | | |
| Computer Hardware & Services | $4,900,000 | $380,000 | $6,020,000 | $240,000 | $9,010,000 |
| Business Products & Services | $1,300,000 | $500,000 | $50,000 | $21,480,000 | $2,300,000 |
| Mobile & Telecommunications | $2,530,000 | $9,980,000 | $14,850,000 | $12,520,000 | $5,970,000 |

| | | | | | |
|---|---|---|---|---|---|
| Retail (non-internet/mobile) | | | | | $54,000,000 |
| Software (non-internet/mobile) | $2,350,000 | $36,000,000 | $14,920,000 | $1,250,000 | $29,570,000 |
| Consumer Products & Services | $700,000 | $43,950,000 | $280,000 | $3,430,000 | $38,380,000 |
| Electronics | $93,600,000 | $2,150,000 | $0 | $50,000 | $2,120,000 |
| Industrial | $44,670,000 | $71,650,000 | $500,000 | $33,690,000 | $100,000 |
| Financial | $14,740,000 | $60,280,000 | $10,890,000 | $3,570,000 | $85,380,000 |
| Leisure | $90,000,000 | | $80,000,000 | $5,000,000 | |
| Healthcare | $46,670,000 | $93,920,000 | $76,580,000 | $48,660,000 | $69,830,000 |
| Internet | $152,750,000 | $150,510,000 | $57,880,000 | $73,490,000 | $237,640,000 |
| Grand Total | **$468,850,000** | **$472,780,000** | **$262,200,000** | **$214,810,000** | **$537,770,000** |

*Figure 47: Value of Deals by Industry Sector, Top 5 Sectors, 2014-2018*



## PEER STATE COMPARISON, 2014-2018

The U.S. Census Bureau defines the North Central region as North Dakota, South Dakota, Nebraska, Kansas, Minnesota, Iowa, Wisconsin, Illinois, Michigan, Indiana, Ohio and Missouri. Missouri ranks fairly high in terms of equity raised compared to other states in the North Central region (see bottom half of chart). Missouri does not fare as well compared to some of the largest venture-attracting states like California, New York and Massachusetts.[58]

California tops almost every list in terms of private equity raised. From 2014-2018, 17,615 companies in that state raised more than $256.7 billion. Missouri companies raised just more than $3.76 billion in the same timeframe.

*Figure 48: Missouri VC Deals Compared to Other States*

| State | Number of Deals | Value of Deals |
|---|---|---|
| Top performing states | | |
| **California** | 17,615 | $256,700,000,000 |
| **New York** | 6,190 | $72,100,000,000 |
| **Massachusetts** | 3,705 | $45,600,000,000 |
| **Texas** | 2,672 | $48,700,000,000 |
| **Washington** | 1,707 | $12,300,000,000 |
| **Florida** | 1,200 | $13,100,000,000 |
| Midwest states | | |
| **Illinois** | 1,519 | $13,800,000,000 |
| **Ohio** | 819 | $5,720,000,000 |
| **Michigan** | 642 | $3,600,000,000 |
| **Minnesota** | 588 | $5,600,000,000 |
| Missouri | **578** | **$3,760,000,000** |
| **Wisconsin** | 418 | $2,400,000,000 |
| **Indiana** | 380 | $2,050,000,000 |
| **Kansas** | 158 | $756,900,000 |
| **Iowa** | 140 | $807,500,000 |
| **Nebraska** | 123 | $540,800,000 |
| **South Dakota** | 28 | $227,100,000 |
| **North Dakota** | 27 | $44,300,000 |

[58] Data from CBInsights; does not include mergers, acquisitions or IPOs.

# HOW TO ACCESS EARLY-STAGE AND EQUITY FUNDING

## DEALMAKERS AND GATEKEEPERS

The reach of an entrepreneur's social network is an important asset when raising funds as many connections are made through trusted referrals. A well-connected community can improve the success of both the entrepreneur in accessing funds and the investor in finding the right deals.

The 2015 Midwest Technology Company Seed Financing Survey[59] revealed that 90% of the companies met their investors through a community member or network. About 5% found investors through an accelerator or incubator program and fewer than 3% were connected through a matchmaking platform.

### MISSOURI'S DEALMAKER NETWORK

Research by Maryann Feldman and Ted Zoller of the University of North Carolina identifies dealmakers as people who "assume roles that make the connections from which knowledge spills over to lower the costs of engaging in innovative activity, thus creating regional vibrancy."[60] Their report suggests that the concentration of individuals engaged in multiple entrepreneurial activities is a key indicator of the strength of an entrepreneurial ecosystem. According to Zoller, "the regions that have a very cohesive social capital network tend to give birth to new entrepreneurial enterprises. The serial entrepreneurs and the serial investors who tend to know one another build a rugged economy, an economy that creates new firms."[61]

In 2012, Zoller mapped the density of the Kansas City metro area, along with 11 other metros. That research found Kansas City's entrepreneurial nodes not as connected as in more established entrepreneurial hubs in the country. In Kansas City, the investor/entrepreneur network is much more fragmented than San Diego, Seattle, Boston and Silicon Valley but looks similar to a number of other cities including Denver and Minneapolis, as evidenced in the following charts.

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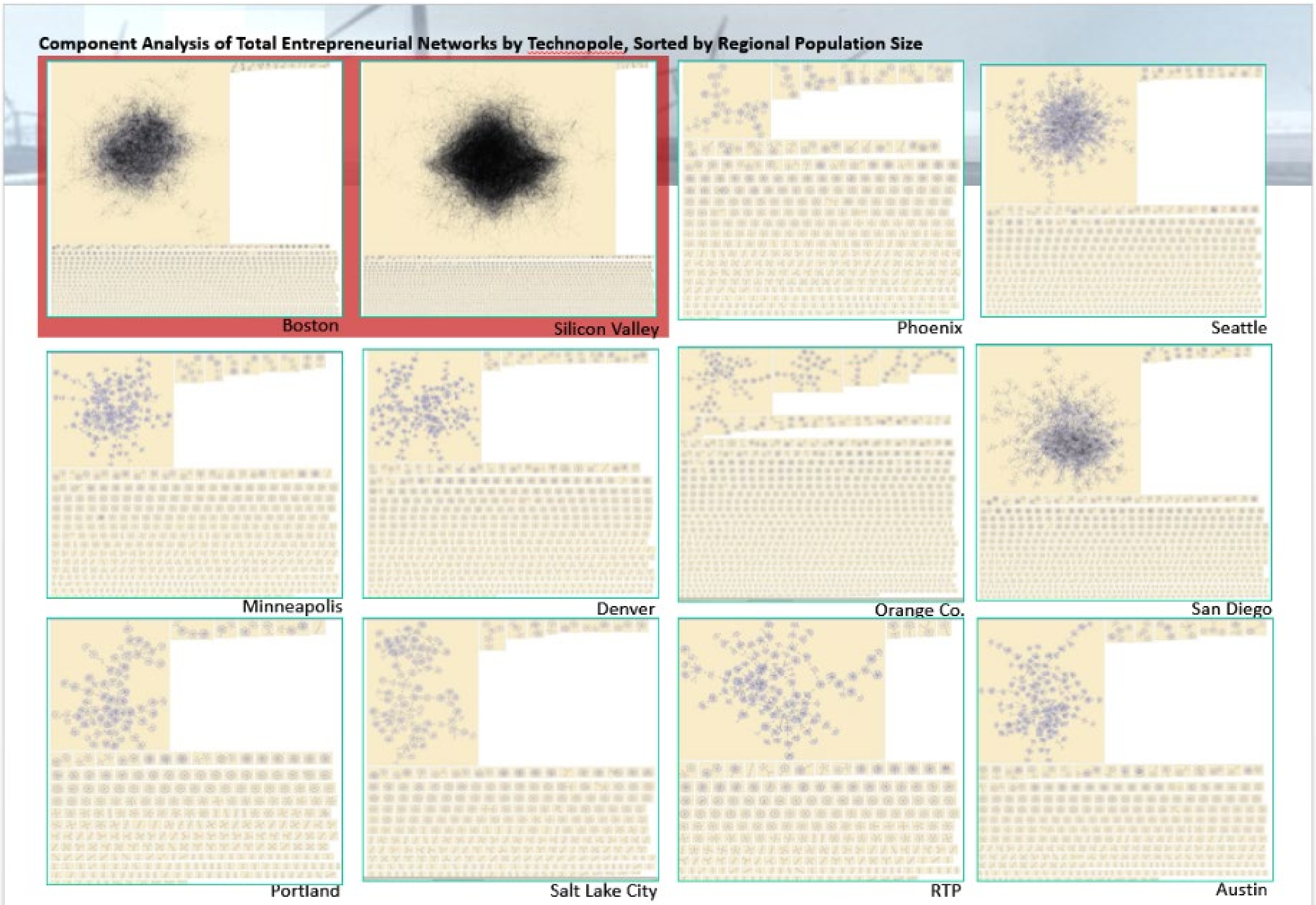
[59] Midwest Technology Company Seed Finance Survey, 2015

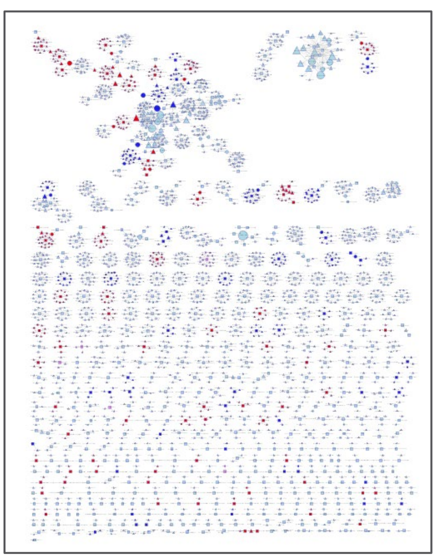
[60] Maryann Feldman and Ted Zoller, *Dealmakers in Place: Social Capital Connections in Regional Entrepreneurial Economies* (*Regional Studies*, Vol. 46.1, pp. 23-37, January 2012)

[61] Interview with Ted Zoller, Kenan Institute of Private Enterprise, 2010. Retrieved July 2019 https://www.kenaninstitute.unc.edu/news/zoller.htm

*Figure 49 and 50: Density of Deal Makers in Selected Cities and Kansas City*




**Kansas City**



Zoller repeated the research in 2015 for the Mayors' Conference on Entrepreneurship in Albuquerque at the request of the Kauffman Foundation. Again, dealmakers were defined as individuals who have founded, managed or invested in multiple private entrepreneurial firms, and hold concurrent equity ties to multiple firms as a consequence of their serving on the boards as directors of these firms. In Kansas City, the number of dealmakers (41) had not changed from the previous study. St. Louis was not part of the study.

The challenge of identifying dealmakers using this methodology is that many early-stage companies in the Kansas City metro area do not have formal boards of directors. Therefore, a count of multiple board seats in Kansas City would not yield much data. Furthermore, many investors in early-stage Kansas City area companies choose to remain private.

One other measure of connectivity is the number of deals that involve co-investments. That number has remained fairly static in Missouri with 22 out of 113 investment in 2014 involving multiple investors (20%) to 26 out of 147 investments in 2018 (17.5%).

Regardless of the methodology, the thesis bears consideration: the more connected investors are within a region, the more investment for entrepreneurs.

Increased connectivity has the potential to yield several benefits:

- Entrepreneurs know who is most likely to invest in what kind of company and at what stage, which can streamline the fundraising process to some extent.
- Investors who know other investors are more likely to make referrals when a deal they see is not a fit.
- Investors who know other investors are more likely to co-invest.

Finding ways to connect investors within their communities and across the state has the potential to broaden and strengthen the capital continuum, potentially providing a significant impact for Missouri entrepreneurs.

## ACCESSING THE CAPITAL NETWORK

In Silicon Valley, one can walk down Sand Hill Road and find a number of funds that might be potential investors in an early-stage company. In Missouri, the capital structure is fragmented, which makes it more difficult to find the right investor at the right time.

Across the state, specific entrepreneurial resources have developed to make the process less mysterious and more manageable. Often referred to as “gatekeepers,” these seasoned business development professionals understand investors, what they seek, how to evaluate an entrepreneur for the right level of funding and how to craft an effective pitch for funding.

ITEN, Cortex, Helix Center in St. Louis and the Missouri Innovation Center in Columbia encourage the co-location of investors and entrepreneurs in order to create more connectivity and host events that bring together entrepreneurs and investors. In Kansas City, KCSourceLink, the Kauffman Foundation and the Greater Kansas City Chamber of Commerce started hosting private dinners and lunches with investors. With the help of the Civic Council of Greater Kansas City, these efforts grew into KCInvestED which has hosted almost 300 investors, potential investors and entrepreneurs at small group dinners and lunches since spring of 2016. KCSourceLink has pilot tested CapitalMatch in Kansas City, a program to connect entrepreneurs to early-stage investors through a confidential matching system.

Other organizations that provide critical connections and coaching to entrepreneurs who are pitching for funding include the Missouri Innovation Center, efactory, OZSBI, the Marquette Tech District Foundation, Digital Sandbox KC, the Mizzou Venture Mentoring Service, Kirksville REDI and the Joplin Area Chamber of Commerce. The statewide Small Business Development Center network has designated five technology centers in St. Louis, Kansas City, Rolla, Springfield and Columbia to assist businesses in obtaining SBIR/STTR funding..

Many organizations host demo days and showcases that bring together “graduating” companies and potential investors. These events are an integral part of the capital continuum as they provide connections to investors and potential customers. The following programs host demo days or showcase entrepreneurs in some way.

KC-NWMO:

- BetaBlox
- The Innovation Stockyard
- LaunchKC - Fountain City FinTech Accelerator, IgniteX CleanTech Accelerator and the LaunchKC Health Accelerator
- Project UK
- Sprint Accelerator

NEMO-Central:

- GrowMidMO
- The Missouri Innovation Center

South:

- efactory
- The Ozarks Small Business Incubator

St. Louis:

- The Ameren Accelerator
- BioGenerator
- Capital Innovators
- Prosper Women Entrepreneurs
- RGAx
- SixThirty
- Sling Health
- Stadia Accelerator
- Yield Lab

Collaborative Capital in Kansas City hosts invitation-only events targeted to high net worth individuals who may be interested in exploring early-stage investments. Companies who are invited to present must have an investment from someone else in the group. iSelect out of St. Louis also brings together investors through in person and webinar events.

InvestMidwest is a venture capital conference that alternates locations between St. Louis and Kansas City every other year. It showcases companies in life sciences, technology and food/ag/bioenergy that are looking for funding rounds greater than $1 million. More than 50 venture capital firms from around the country participate in this event in the spring of each year.

The KC Animal Health Investment Forum showcases animal health and nutrition companies from throughout the world that are seeking $500,000–$20 million in funding with a revenue projection of $20 million within five to seven years. This event is held in late summer/early fall each year.

A number of classes and workshops are available to help prepare entrepreneurs to pitch to investors or raise capital. Many of these classes are offered by the Missouri SBDC and are available as live and webinar events to encourage participation from entrepreneurs in any community. Examples include:

- Business Plans that Work
- How to Understand Financial Statements
- New Venture
- Pitching to Investors
- SBIR/STTR: The Basics
- Tech Venture
- Winning Federal Research Grants

Any of the following MOSourceLink Resource Partners involved in equity and grant funding support can connect a business into the early-stage financing community.

## ORGANIZATIONS THAT SUPPORT SECURING FEDERAL GRANTS OR RAISING EQUITY CAPITAL:

KC-NWMO:

- **The Innovation Stockyard** at the Kit Bond Incubator in St. Joseph is a one-stop business incubator specializing in the animal sciences field. The facility currently hosts seven tenants and provides services to other companies in Northwest Missouri.
- The **Sprint Accelerator** began as a partnership with TechStars focusing on mobile health applications. In 2016, the Sprint Accelerator began working with another major corporate player, **Dairy Farmers of America**, to focus on startups with innovations directly related to the two companies' core business. The 90-day immersive program includes mentoring and intensive work with the corporate partners. No capital is provided to the companies, which number about 50.
- **University of Missouri-Kansas City Innovation Center** hosts a number of programs designed to assist in starting and growing companies. Programs under the UMKC-IC umbrella include Digital Sandbox KC, Whiteboard2Boardroom, the Small Business and Technology Development Center, Procurement and Technical Assistance Center, KCSourceLink and SourceLink.

NEMO-Central:

- **GrowMidMO** helps entrepreneurs at all stages of their businesses from startup to succession in mid-Missouri (from Glasgow to Hannibal and from Brookfield to Louisiana).
- **The Missouri Innovation Center** helps launch and build high-growth ventures in mid-Missouri from its Columbia base. The Center operates and manages the **MU Life Science Business Incubator,** a 33,000-square-foot facility featuring wet labs, dry labs, offices and shared resources including multiple conference rooms.
- **The Mid-Mo Tech Incubator** focuses primarily on mobile applications and internet services to solve problems in healthcare, agriculture, media, education, financial services and online marketplaces. The MIC also offers mentoring, resources and access to capital, including the Accelerator Fund created in 2016.

South:

- **Codefi** provides startup entrepreneurs and emerging innovative companies in the southeast with tech-powered space, innovative programming and an inspiring community. Codefi makes its home in the Marquette Tech District.

- The **efactory** in Springfield opened its doors in 2013 as a business incubator, training center and support network. The program is sponsored by Missouri State University. Participating companies in the Jumpstart program receive $30,000 in exchange for 8% equity, as well as office space, lead mentors and free business consulting.
- **The Economic and Business Engagement Center at Southeast Missouri State University** fosters business and workforce development and facilitates the innovation process.
- **The Ozarks Small Business Incubator** (OzSBI) helps businesses in southern Missouri learn, grow and succeed. OzSBI combines office space, workshops, microlending and mentoring in West Plains. The incubator has hosted 30 tenants and assisted 196 new businesses since January 2012.

St. Louis:

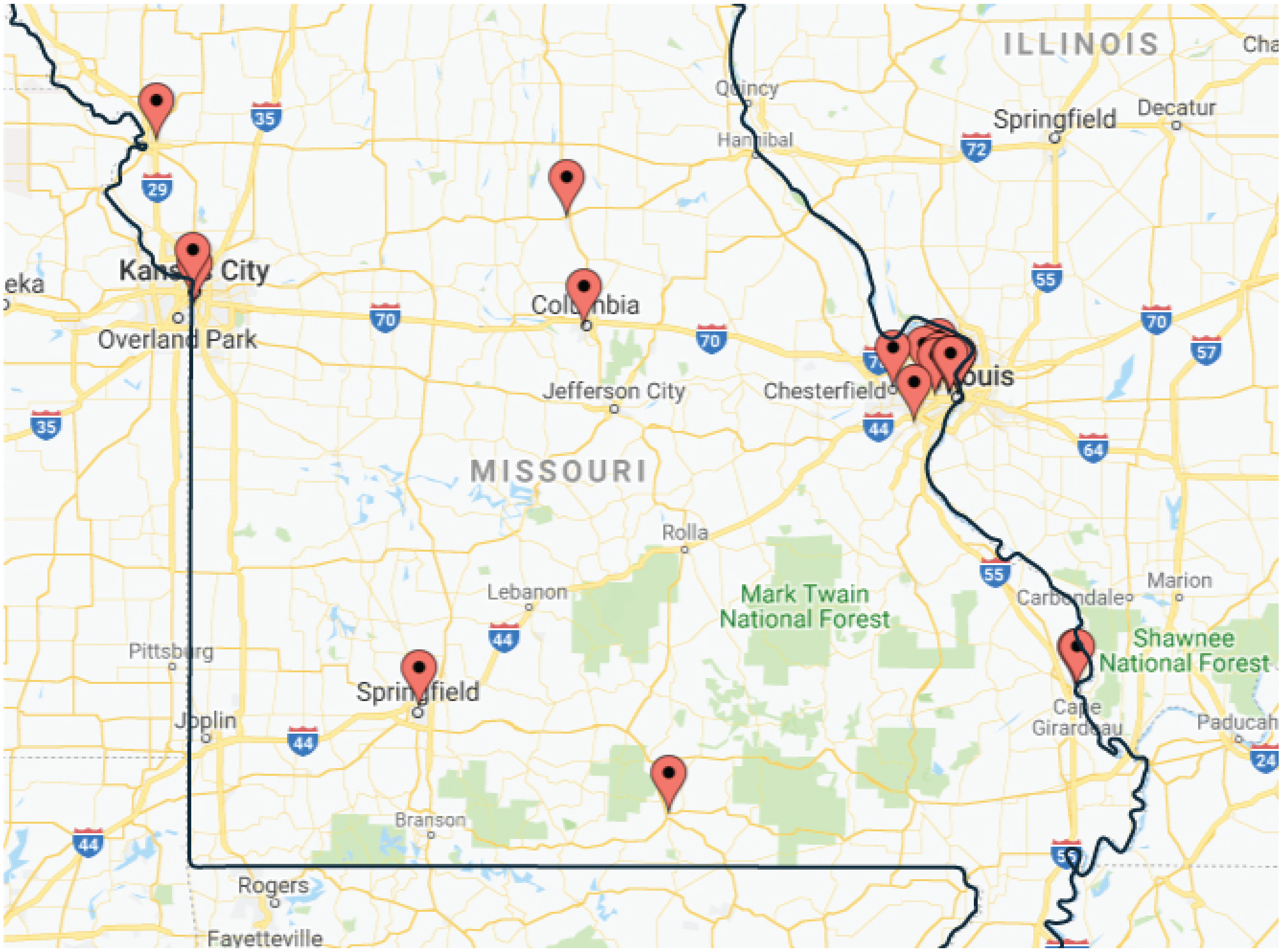
- **Accelerate St. Louis** supports the startup community through connectivity, capital and raising awareness of innovation. Accelerate St. Louis is led by the St. Louis Regional Chamber.
- **The Ameren Accelerator** at the University of Missouri-St. Louis selects five-seven companies for a 12-week program that includes $100,000 in funding, office space and intensive mentoring. The program focuses on the best new energy technologies.
- **BioGenerator** was formed in St. Louis in 2003 to support new company formation in early-stage bioscience companies. BioGenerator is the investment arm of BioSTL, which is a collaborative group of St. Louis civic, academic and business leaders who support medical and plant science innovation. In 2010 BioGenerator created the BioGenerator Labs at Cortex and expanded that to the 39N district for agtech startups. BioGenerator can invest across multiple stages as companies mature, ranging from as little as $25,000 at the pre-seed stage up to over $1M of cumulative investments into a single company. The portfolio includes 45 active investments, 50 grants and seven exits.
- **Capital Innovators** has an eight-year history of providing startups with the resources and connections they need to get to the next level. The Startup Accelerator Program in St. Louis provides $50,000 in seed funding as well as mentoring, co-working space and connections. During its complete history, the Startup Accelerator has worked with 111 companies.
- **Cortex** is a 200-acre hub for business, innovation and technology in St. Louis' Central West End. Business owners and startups have access to networks, talent, training,

capital and the space needed to grow companies. Currently more than 415 companies and 5,800 employees are located in the Cortex Innovation Community.

- A catalyst for tech innovation since 2008, ITEN provides programs for the rapid development of scalable tech innovation, engaging experienced entrepreneurs to help others build successful, growing companies.
- Prosper Women Entrepreneurs was created to advance women-led companies in St. Louis. The Prosper Women Entrepreneurs Startup Accelerator focuses on increasing women entrepreneurs' access to growth capital. The program has served 26 companies from 2012-2018.
- RGAx is an accelerator within Reinsurance Group of America, a global provider of life reinsurance in St. Louis. The accelerator has invested in eight companies between its founding in 2016 and 2018.
- SixThirty in St. Louis provides fintech startups with up to $250,000 in funding, focused mentorship and connections to the top financial services companies in the country. The accelerator was established in 2013 and has worked with 49 companies.
- SixThirty Cyber provides cybersecurity based startups with $200,000 in capital as well as training, mentoring and networking opportunities.
- The Skandalaris Center on the campus of Washington University provides a campus focal point for creativity, innovation and entrepreneurship. Events like the Social Enterprise and Innovation Competition, IdeaBounce and Healthcare Hackathon provide support and connections for students and the community.
- Stadia Accelerator helps established sports startups get to the next level through a combination of equity investment, mentoring and connections to sports business executive. The program invested in 20 companies from 2016-2018.
- T-REX, located in the heart of St. Louis' downtown, hosts venture accelerators, venture capital companies, training/mentoring organizations and an SBA-funded resource center alongside startup companies, giving those startups the resources they need to grow and thrive. T-REX hosts about 200 companies and has graduated about 120.
- University of Missouri-St. Louis ED Collabitat is a state-of-the-art education center that hosts events, including those aimed at entrepreneurs.
- Yield Lab was formed in 2014 to support early-stage agtech companies. The Yield Lab Accelerators invest $100,000 in early-stage agtech companies, providing connections to customers and identify mentors. Accelerators located in North America, Europe,

Latin America and Asia Pacific host 19 portfolio companies in four cohorts. The North America Accelerator is located in St. Louis.

*Figure 51: Location of Organizations that Assist in Securing Grants and Raising Equity Funds*



# INCREASING CAPITAL ACCESS: RECOMMENDATIONS

Missouri can build strong infrastructure supporting early-stage capital access for high-growth potential businesses by:

- Increasing the amount of and access to loan funding, especially in rural areas
- Supporting companies in the earliest stages of the growth pipeline with grant funding
- Improving access to equity investment
- Activating the statewide network of resources for entrepreneurs and small business

The result of these efforts would be an increase in the number and value of investments by 2025.

## INCREASE LOAN CAPITAL INVESTMENT

Goal

- Increase the availability of alternative loans for early-stage businesses in Missouri that are not yet eligible for traditional bank loans from $18 million in 2018 to $31 million by 2025.

Recommendations:

- *Recommendation 1: Create a continuum of products that provide loans of less than $250,000 for non-bankable companies.*

Missouri has a variety of capital options that can support non-bankable or bankable with guarantee businesses in accessing alternative loan funds that serve to support business operations, improve the credit score of individuals creating businesses and help the companies establish a financial history to better position them to qualify for other funding options.  A variety of products are available to support businesses in finding loans of up to $250,000 but these are not well known nor available to all across the state. Connecting organizations that offer these loans and finding ways to fill gaps to support more of the state's businesses could open up new capital avenues for Missouri businesses.

- *Recommendation 2: Increase available alternative loan funds by $7 million per year by 2025 by exploring additional funding sources that could support loan pools strategically placed across the state. Federal mechanisms could include programs sponsored by the U.S. Small Business Administration and the Departments of Agriculture, Commerce and Treasury.*

Several organizations in Missouri qualify for federal funds that could create additional loan capital to be disbursed to entrepreneurs and small business owners. Missouri is not taking full advantage of those programs.

- Of the 27 Certified Development Financial Institutions (CDFIs) in Missouri, only 12 received financial assistance awards that can provide microloans in the past five years and only three garnered awards in 2018.
- New Markets Tax Credits from the U.S. Treasury are intended to spur new or increased investment into operating businesses or real estate projects in low-income communities. Of 364 Community Development Entities in Missouri that are eligible to receive NMTCs, five were given NMTC allocations in 2018. Reported data does not include how much of the allocations were used for microlending vs. real estate investment.
- 27 organizations received Rural Business Development Grants from the U.S. Department of Agriculture. It is not clear how those are being used to support businesses.
- 16 communities in Missouri received Community Development Block Grants in 2018. Most of these grants go to larger cities in urban areas, including metro St. Louis, metro Kansas City, Columbia, Jefferson City, Springfield and Joplin. It is not clear if any of these funds are being used for microloans, although that is an allowable activity.
- Several electrical co-ops are already active with revolving loans and others have expressed interest in setting up revolving loans through the U.S. Department of Agriculture's Rural Economic Development Loan and Grant Program. These co-ops serve populations in rural parts of the state and could provide essential capital to business owners in those communities.

Connecting organizations across the state that are eligible to access these federal sources of capital to determine how additional funds could be accessed and utilized could create new capital for Missouri companies.

Loan programs often require loan loss reserve and local investment to maximize the level of available capital pools. Educating and encouraging bankers and other funders could help develop mechanisms to provide these loan loss reserves and local capital pools.

- *Recommendation 3: Pilot test a community-directed loan fund in select underserved rural communities by creating and activating $2 million per year in loan capital. This capital can be paired with financial institutions or private investment to fund small* *business growth, triggering additional private investment through bank, credit union and other private investment.*

Low population size and density, and as a consequence, limited local demand, make it difficult for rural businesses to achieve economies of scale or critical mass. Entrepreneurs in rural communities are less likely to find the resources and services that are taken for granted in more urban locations.

In rural communities, there are few lending institutions. This frequently limits access to capital. Limited competition may also encourage risk averse behaviors on the part of lenders. A study by Harvard's Michael Porter suggests that rural communities need tools and financing mechanisms, as well as strategies to connect to adjacent urban centers. One way to address the challenges of rural entrepreneurs would be a pilot loan and support program, modeled after the highly successful E-Communities system in Kansas.

An E-Community is a city, a consortium of cities or an entire county comprising less than 25,000 residents that has made a decision to proactively pursue entrepreneurship as an economic development strategy. An E-Community will make a commitment to cultivate an entrepreneurial environment by identifying and developing resources to help local entrepreneurs start or grow businesses and by establishing a locally-administered loan fund.

An E-Community consists of several parts, including a community leadership team, educational programs for both entrepreneurs and the community leadership team, support for marketing efforts, a matching loan fund and connections to resources throughout the state.

Missouri could choose to pilot test the E-Community concept in two communities in northern Missouri, an area underserved by existing loan programs. The Missouri Technology Corporation, as a statewide mechanism for capital, could lead a project like this.

- *Recommendation 4: Missouri does have existing loan capital that is not being deployed, especially in the rural areas. Maximize the use of existing revolving loan funds in Missouri by convening ownership groups to determine available undispersed funds and mechanisms to move $4 million more into the market by 2025.*

Many of the existing loan funds, particularly those in rural communities, are underutilized. Only a third (11 of 33) of identified loan programs reported activity in 2018, and most of those were in urban areas. Convening these organizations to better understand the barriers to accessing loan funds could create new mechanisms to get capital into the hands of small business owners.

- *Recommendation 5: Significantly increase the visibility of available loan programs across Missouri through a strong marketing program that raises awareness of existing loan products and services to appropriate audiences.*

Increasing the awareness of available debt capital, especially in rural areas, may drive more usage of the loan funds.

- *Recommendation 6: Increase funding support for programs that provide entrepreneurship and business development training to develop a pipeline of borrowers for the various loan product offered by traditional and non-traditional lenders.*

Missouri's entrepreneur support organizations provide support to aspiring and existing business owners to help them access capital. Ensuring that these organizations have the capacity to provide training and counseling to assist in capital access is imperative to create a pipeline of people to access debt funding. Creating statewide information on available loan funding and how to access it that is readily accessible and well-shared is needed.

## INCREASE GRANT CAPITAL INVESTMENT

Goals

- Secure $2 million per year of proof-of-concept grants to support a minimum of 80 Missouri proof-of-concept projects per year by 2025.
- Increase the amount of Missouri SBIR funding from $20 million to an average of $25 million per year by 2025, and increase awards to companies outside the St. Louis region.

Recommendations:

- *Recommendation 7: Support public and private investment in existing and emerging grant programs that support proof-of-concept and market entry positioning.*

Grants play a critical role in the funding continuum as they fuel companies too early for investors that expect immediate returns. Grants do not have to be repaid and the organization giving the grant does not take an equity position in the company, so there is no dilution of the company's equity position which could hinder later-stage fundraising. Because the companies targeted are not "bankable" yet, support for them must come from the community (typically local or state funding). If early-stage companies do not get the necessary investments to prove concepts and test markets, they die before they have a chance to grow and prosper.

Data from programs like Digital Sandbox KC proves that investing in the earliest stages of a company fills the pipeline of innovative companies and leads to follow-on funding. Expanding proof-of-concept programs across the state could provide proof-of-concept funding for all entrepreneurs.

- *Recommendation 8: Better position Missouri to access public funding, especially state and federal grants. Create a pool of matching funds that can be rapidly allocated to special projects.*

Many federal programs that can be used to increase capital pools for Missouri entrepreneurs require one-to-one matching funds from private sources. A matching pool of private funds could be deployed quickly when grant opportunities present themselves, increasing the chances of successfully winning appropriate government grants.

- *Recommendation 9: Create and implement a strong awareness campaign for SBIR and STTR grants that drives people to existing SBIR/STTR training programs.*

Early-stage technology companies, especially those engaged in research and development, can seek funding in the form of grants from the federal government. Small Business Innovation Research and Small Business Technology Transfer programs are two federal mechanisms created to incent research and development within small businesses. Each year, federal agencies with extramural research and development budgets that exceed $100 million are required to set aside a portion of that funding to the SBIR and STTR programs. Small businesses can compete for these funds. Examples of Missouri companies that have received funding through these programs include Aware Vehicles, Thermavent Technologies, Froberg Aerospace, Arch Oncology, SentiARand Intact Genomics.

Data shows that Missouri lags significantly in the number of SBIR/STTR grants received, compared to other Midwestern states like Illinois and Colorado. The bulk of the state's federal grant funding is concentrated in the St. Louis area, with other parts of the state lagging significantly. No SBIR/STTR grants have been awarded to companies based in the southern part of the state in the past five years.

A concerted effort has been made to increase the number of federal grant applications from Missouri firms. BioGenerator in St. Louis is beginning to see results with a program called Grants to Business (G2B), which helps life-science companies develop competitive applications for business grants, with a focus on SBIR/STTR grants. Early-stage companies have been awarded $16.5 million in SBIR/STTR funding from the National Institute of Health in just one year of the program and the number of grants has doubled since the program began.

A dedicated statewide awareness campaign can help educate companies about the benefits of applying for federal grants, help them learn how to prepare the necessary applications. This should result in more successful applications for businesses in all parts of Missouri, especially southern Missouri.

- *Recommendation 10: Reinstate the Missouri SBIR/STTR Phase 0 program in partnership with programs that offer training, grant application feedback, strategy consultations, mock panel reviews and administrative support for application development, especially targeting southern portions of the state.*

The Missouri Small Business Development Center offers specific training for those seeking SBIR/STTR grants to build their technology businesses and further technology research. The SBDC's MoFAST (Missouri State and Federal Technology) program offered the Missouri Technology Incentive Program (MoTIP). This program provided funding to support entrepreneurs who were pursuing an SBIR/STTR grant. MoTIP offered $5,000 Phase 0 grants to help with preparing and submitting an SBIR/STTR Phase I grant applications.

The program yielded results, with Missouri moving from just 16 SBIR/STTR awards in 2001 to 40 awards in 2002. The effort targeted women-owned and minority businesses, increasing women-owned applications from seven to 15 and minorities from two to 18. The 2002 total for SBIR/STTR grants was just more than $8 million. The program was active again from 2008 to around 2010. During that time frame, 103 Phase 0 grants totaling $514,000 were awarded. Those grants directly resulted in $4.25 million in SBIR Phase I grants to Missouri companies and drove more successful applications through extensive promotion of the funding stream.

## INCREASE EQUITY CAPITAL INVESTMENT

Startup and early-stage companies with high-growth potential often turn to equity investors for capital. Investors will provide this capital in exchange for convertible debt or ownership equity. Equity investors look for three key attributes:

1) Differentiated products addressing large global markets
2) Investment opportunities with exceptional potential for exit in a reasonable period of time
3) High return multiples on invested capital

Equity investment in startup companies usually comes in stages. Founders and their families and friends often provide the first capital. Crowdsourcing and grants are other options. After this, companies can turn to angel investors, who are often organized into groups to pool investment dollars and share diligence efforts, and to other seed capital funds. Companies that continue to grow and have increasing capital needs will turn to venture capital firms to drive later stages of development. Venture capital firms comprise "general partners" who invest funds provided by other "limited partner" investors. Once companies become profitable, or can demonstrate a clear path to profitability, they can access additional private equity investments or complete an initial public offering of equity (IPO).

### Goals

- Double seed capital investments (under $1 million) from $13 million in 2018 to more than $26 million per year by 2025.
- Increase venture capital investments ($1 million - $10 million) from $122 million to more than $250 million per year by 2025.

### Recommendations:

- *Recommendation 11: Maintain and increase state-funded seed stage investment funds.*

Local, state and federal governments benefit when rapidly growing companies create jobs and generate tax revenue. This makes early-stage companies, which typically generate job growth, of great interest to economic development agencies. Therefore, governments will often provide incentives that encourage private investment or capacity-building grants to support programs that, in turn, support community businesses.

Support for innovative startups and growth-oriented firms in Missouri flows through the Missouri Technology Corporation. MTC provides early-stage capital to high-growth companies' direct loan and investment programs, support for innovation centers and grants to entrepreneurial support organizations.

According to the 2018 annual report, since 2011 the MTC has co-invested in more than 120 companies which have leveraged the MTC funds to raise $600 million in additional private capital. Since 2015 these companies have created almost 1,000 jobs.

In recent years, the state budget for innovation support has been cut dramatically, from a high of $23 million to current levels of $3 million.

Companies that received MTC funding outperformed those that did not in terms of follow-on funding.[62] Twice as many MTC-funded companies raised additional investment, compared to non MTC-funded companies. Missouri Technology Corporation should continue to be funded for the IDEA Funds which provide key early-stage funding for innovative companies.

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- *Recommendation 12: Work with existing and emerging angel capital groups to increase membership, expanding to other parts of the state and encouraging more participation.*

Angel investors are active in Missouri, primarily in the Kansas City, Columbia and St. Louis regions. Frequently angel groups co-invest to meet the needs of early-stage companies. Individuals with the potential to invest who live in other parts of the state could be activated by the development of other regional angel groups or by the expansion of existing angel groups.

Angel groups bridge a critical gap between grant/friends and family financing and venture capital investment. In Missouri, angels are organized in only four of the cities (St. Louis, Kansas City, Columbia and St. Joseph). An informal network of angels operates in Springfield and a new women's angel group has just started in Columbia. Many individual angel investors work independently, are not associated with angel networks or funds and may be hard to access due to lack of visibility.

Mid-America Angels offers a model for expanding angel investing groups. The organization has already expanded to St. Joseph, as well as two cities in Kansas. The infrastructure exists to support recruiting investors, sourcing deals and providing pitch prep for presenters, as well as conducting due diligence and negotiating deals.

- *Recommendation 13: Explore an angel tax credit program in Missouri.*

Angel tax credits are used to spur individual investments in other states, including Kansas. Missouri does not currently have an angel tax credit program, and exploring the possibility could yield opportunities to encourage more early-stage investment.

- *Recommendation 14: Promote Missouri's entrepreneurs and deals to regional, national and international venture capital firms to drive outside investment into Missouri.*

This report identifies 34 firms active in venture capital and private equity. In addition, 22 regional and national venture capital funds made investments in at least two Missouri companies during 2012-2018. It is unlikely that Missouri-based investors will ever be able to completely fulfill the needs of Missouri-based entrepreneurs. Therefore it is imperative to promote deals beyond the borders.

Co-investment benefits the entrepreneur because he or she does not have to rely on any one source for complete funding. Investors are able to diversify their portfolios by co-investing smaller amounts in a number of deals.

- *Recommendation 15: Recruit outside VCs to place offices in Missouri.*

Efforts should be made to showcase Missouri entrepreneurs to investors in other geographies and recruit VCs from outside Missouri to place offices in Missouri. Further, Midwestern funds that are already investing in Missouri companies should be identified so that a consistent method of showcasing deals for these investors to encourage co-investment can be developed.

- *Recommendation 16: Better connect and make visible family offices across the state.*

Research should be conducted to discover what family offices are active in Missouri, their investment profiles and how those funds can be accessed.

- *Recommendation 17: Create mechanisms that showcase Missouri-based early-stage companies to other communities of investors within the state, regionally and nationally for coinvesting.*

Missouri has a number of venture capital firms that are investing, but they are not necessarily investing in Missouri-based companies. From 2014-2018, 34 Missouri-based venture capital firms made a total of 450 equity investments. Of those investments, only about 30% were in Missouri companies.

A concerted effort must be made to encourage local investors in early-stage companies to be more transparent about their investments. In addition, at the later stages of funding, investors frequently are not located in the immediate geographic region. Therefore, it critical to identify and link all the sources of funding statewide so that entrepreneurs know how to identify and access appropriate capital sources. Currently, investors tend to be aggregated in St. Louis and Kansas City.

- *Recommendation 18: Connect investors, gatekeepers and entrepreneurs and venture capital from inside and outside the state through networking events and technology.*

Research by Ted Zoller, professor at the University of North Carolina and Kauffman Foundation Fellow, shows connectivity is critical to a robust capital infrastructure. In Kansas City, research by Zoller showed that entrepreneurs are not connected to investors and investors are not connected to other investors. In St. Louis, ITEN and Cortex have been in the forefront of connecting the entrepreneur-investor community. Through accelerators and mentors, Kansas City has been working to network the investor community. Accelerators and incubators like Missouri Innovation Center, efactory and the Marquette Technology District do the same for their regions.

Local investors can engage in the startup community in a number of different ways: individual angel investing, joining an angel investing group, investing in a local venture capital fund or philanthropically supporting the organizations that support early-stage companies.

First, potential investors must be made aware of the opportunities. Blog posts, media success stories, small gatherings and one-on-one conversations can create awareness among potential investors. It's also critical to expand beyond the "usual suspects" and engage people from diverse audiences.

The pathways to equity investments frequently pass through a set of "gatekeepers". These individuals and organizations have knowledge of who invests at what stage, what types of opportunities certain investors look for and how a company needs to prepare for the "pitch." In Missouri these gatekeepers are frequently located in entrepreneurial support organizations and must be funded by civic and community dollars.

Continued education about how early-stage capital works is critical for both investors and entrepreneurs. Investors need to understand how the early-stage asset class can fit into an overall investment strategy. Both need to know what kinds of investments are most appropriate for what kinds of companies at what stage.

Education for both entrepreneurs and investors can increase the understanding of the types of deals certain investors prefer and their desired stage of investment. In order for this to work, investors must be willing to be more transparent about their investments and the gatekeepers they use for sourcing deals.

In Kansas City, KCInvestED hosts small group dinners and lunches to better connect entrepreneurs, investors and gatekeepers. These no-agenda events allow the participants to become better acquainted and learn more about the entrepreneurial infrastructure in an informal setting.

Kansas City's CapitalMatch model is another way to connect entrepreneurs to investors. Investors are frequently Invisible or inaccessible. Capital Match is an informal, private way for learning about early-stage deals and seeking early-stage capital. Entrepreneurs can indicate what kind of capital they are seeking. Alerts about early-stage investment opportunities that fit the criteria are sent to investors as they become available. Although the investors remain "invisible," the pathway or gate is clear for the entrepreneur. This program could easily be expanded to include individual investors from across the state as well as venture capital funds.

InvestMidwest, now in its 20th year, has long been a successful venue for connecting investors to each other and to entrepreneurs around bioscience, technology and food/agriculture.

- *Recommendation19: Support programs that create deal flow and connections between Missouri cities and rural areas.*

Distance can make deal sourcing a challenge, whether working across the state or connecting to investors outside Missouri. One way to showcase companies would be to videotape those who participate in demo days and showcase events hosted by entrepreneurial support organizations throughout the state. The "pitches" could be distributed to a network of investors.

## STRENGTHEN THE CAPITAL LANDSCAPE

### Goal

- Activate the statewide network of resources for entrepreneurs and small businesses to improve access to capital; connect with and educate residents on how to access available capital.

### Recommendations:

- *Recommendation 20: Tell the story of Missouri investments on a state, national and international stage.*

Despite the challenges, many companies are able to raise the capital they need to start and grow their businesses, whether that be loans, grants or equity. Telling these success stories offers a realistic view of the process, helps educate people about the path to financing and offers inspiration.

- *Recommendation 21: Prepare a comprehensive set of resource materials on raising capital in Missouri and make it available to entrepreneurs, investors and support organizations. Promulgate best practices on deal structure and terms.*

Entrepreneurs need a clear understanding of the process and the resources involved in raising money. Standard content that explains the types of funding available and what is appropriate for different types of entrepreneurs will help increase the likelihood of entrepreneurs pursuing the right funding from the right resource. This information could be shared with entrepreneurs through the network of resource providers as well as investors at all levels. Those that teach startup classes can help spread a consistent message throughout the state.

Additionally, those who are pursuing equity investments would benefit from examples of term sheets, valuations and deal structures. This information can help both sides of the deal move toward successful outcomes.

- *Recommendation 22: Work with existing organizations that provide specialized education programs that support access to capital and increase referrals to those programs through a strong awareness campaign.*

Missouri has 18 organizations that work with companies seeking loan funding and 24 that help those seeking grants or equity investment. Almost 60 organizations offer micro or alternative loans, about 30 groups run competitions and accelerators and 18 host demo days and entrepreneurial showcases. Many entrepreneurs are unaware of these resources and would significantly increase their chances of gaining appropriate funding if they were connected to those resources.

- *Recommendation 23: Strengthen the entrepreneurial support organizations that nurture the capital landscape in Missouri.*

Entrepreneurial support organizations across Missouri play a critical role in the capital continuum for early-stage companies, whether they provide loans or grants, help with credit repair and financial management, assist in raising equity capital or make trusted referrals. A combination of local, state and federal funding support these organizations, and accessing additional funding could build their capacity to coalesce as a trusted referral network for entrepreneurs throughout the state.

The state of Missouri itself provides critical funding, directly to entrepreneurial companies as well as to entrepreneurial support organizations through the MOBEC program. It is critical to maintain state funding for MOBEC, which leverages federal and local dollars, so that entrepreneurial support organizations can continue to play a foundational role in the life of Missouri startups. The state also provides critical support to the innovation centers that serve entrepreneurial companies in all parts of the state with technical assistance and education.

In addition, more corporate support should be solicited as large organizations seek to align themselves with innovations in their industry verticals.