



KCSourceLINK.

WE CREA+E CAPITAL

Financing Startup and Early-Stage Companies
in the Kansas City Region

September 2017 Full Report



PURPOSE OF THIS REPORT

In 2015, the first [We Create Capital report](#) was developed to provide a clearer picture of the funding landscape for emerging and growth businesses in the Kansas City region. It provided the basis for a strategic plan to increase capital sources, make it easier for entrepreneurs to access capital and help investors find attractive investment opportunities. The goal was to identify gaps and initiate actions to address them to significantly increase the availability of capital for the region's startup and early-stage businesses.

This report documents progress against the strategic plan and provides comparative data on a number of factors. *We Create Capital Update 2017* also identifies new areas of opportunity in early-stage capital.

Thanks to the following organizations for contributing data and insights:

AltCap

Alternative Investment Forum (AIF)

CC Capital Advisors

The Civic Council of Greater Kansas City

Economic Development Corporation of Kansas City, MO

Enterprise Center in Johnson County

Ewing Marion Kauffman Foundation

Federal Reserve Bank of Kansas City

Greater Kansas City Chamber of Commerce

Hispanic Economic Development Corporation

Justine PETERSEN

Mid-America Angels

Missouri Technology Corporation

NetWork Kansas

Northland Angel Investor Network

OneKC for Women

Polsinelli

U.S. Small Business Administration

Women's Business Center

Women's Capital Connection

HOW TO ACCESS LOANS, GRANTS AND CAPITAL IN KANSAS CITY

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 KCSOURCELINK hotline (816-235-6500)—services are free to all Kansas City business owners—for an initial triage, information about options available and suggestions for the best route to obtain funding or financing.



VISIT
KCSOURCELINK

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In 2011, Kansas City embarked on a bold quest: become America's most entrepreneurial city.

Many organizations and individuals have come together to work toward this lofty goal. We set out to make a difference for Kansas City's entrepreneurs in six areas:

- ◆ Dramatically increase available startup and growth capital
- ◆ Engage the broader corporate community
- ◆ Create a strong entrepreneurial pipeline of ideas
- ◆ Build entrepreneurial talent
- ◆ Tell the story
- ◆ Maximize entrepreneurial support resources

There's good news. We're making progress.

After much effort from many in the community, the pool of available capital for early-stage firms has increased 290 percent from 2013 to 2016. The Whiteboard2Boardroom program has created a pipeline for innovations to flow from universities, research organizations and hospitals into the marketplace. Kansas City is regularly ranked as one of the top cities on any number of entrepreneurial measures.

And we're just getting started. We believe the work we are doing is going well beyond supporting our entrepreneurs to drive the community forward. We are truly putting Kansas City on the map.

Capital will continue to be an area of focus over the next few years. We will continue to work on educating entrepreneurs and investors about early-stage capital, in terms of debt and equity. We will continue to help build pools of capital for companies all along the funding continuum. We will continue to prep and connect entrepreneurs to the right source of capital at the right time.

In addition, we see an opportunity to leverage the invest-

ment activity that has

taken off in the past three years by positioning Kansas City as a financial hub for entrepreneurial financing.

Well positioned in the middle of a region that includes Omaha, Des Moines, Tulsa, Wichita, Springfield, Oklahoma City and more, Kansas City can lead this effort to draw new businesses and talent.

We'd like to ask for your support as we continue to connect entrepreneurs to resources, grow the pool of capital, engage corporations, tell the story, fortify the pipeline of innovations and help develop talent. We need your support if we are to continue to build on this momentum and continue to connect. Your role as entrepreneurs, civic leaders, corporate leaders, support organizations and, quite simply, impassioned Kansas Citians is vital and necessary to improving our economy and the opportunities for everyone in our community. Working together, we can build on the momentum we've created, and move the needle even further. The result: a place that supports and encourages entrepreneurs, a city that shines as a model for other communities, a region that we are proud to call home — Kansas City.

Thanks for your partnership.



MARIA MEYERS

Vice Provost of Economic Development, University of Missouri-Kansas City
Executive Director, UMKC Innovation Center
Founder, KCSOURCELINK, SOURCELINK



EXECUTIVE SUMMARY

Kansas City has deep roots in entrepreneurship. The names of our civic spaces reflect that history: Kauffman Stadium, Helzberg Hall, Bloch Cancer Survivor Park.

Kansas City is a city of movers, doers and makers. People across the metro area and from all segments of the population have embraced this entrepreneurial heritage, have laid claim to the vision of becoming America's most entrepreneurial city. In typical Kansas City style, people have started doing things to make the community a better place for other people to start and grow businesses.

One area that's seen a significant amount of effort and progress is in capital. When we reported on the state of capital for Kansas City's early-stage companies in 2015, there was not that much to say other than there was a gap. The [We Create Capital report](#) laid out the situation and suggested some specific action steps to solve the problem of capital access. Just two short years later, we're making progress on almost every front.

People and organizations too numerous to mention took the issue of capital to heart. A few highlights:

- ▶ Mid-America Angels expanded and the Northland Angel Investor Network was formed
- ▶ Angel investment more than doubled, \$1.4MM in 2012 to \$3.6MM in 2016
- ▶ Flyover Capital invested in their first deals
- ▶ The KCRise Fund and KCIInvestED emerged out of the Civic Council's KC Rising initiative
- ▶ Firebrand Ventures launched
- ▶ Royal Street Ventures opened a local office
- ▶ LaunchKC joined Digital Sandbox KC as another option for early-stage grants
- ▶ Outside funds started expressing significant interest in Kansas City: Lewis & Clark, Drive Capital and more

Make no mistake: the problem of capital for early-stage entrepreneurs is not solved. We are not finished.

This report provides an update on the state of early-stage capital in Kansas City. We've looked at all the measures that were in the original report in order to see where we are moving the needle. We've provided a progress report on the objectives laid out in the 2015 We Create Capital report. And we've identified some ideas for next steps.

Again, many thanks to the numerous organizations who have been working to increase access to capital for early-stage entrepreneurs in the Kansas City area.

[This is your report.](#)

INCREASING CAPITAL ACCESS: PROGRESS REPORT

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

- 1) increasing available capital
- 2) building a large, active and accessible network of investors
- 3) educating the community on capital access

The result of these efforts would be an increase in the number and value of deals by 2020.

Increase Loan Capital Investment

GOAL:

Increase the availability of alternative loans for early-stage businesses in Kansas City that are not yet eligible for traditional bank loans to \$10 million by 2020

STATUS:

\$10+ million in microlending since 2012; approval for \$5 million SBA Microloan Fund

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.

Several groups partnered beginning in 2009 to build an early-stage loan infrastructure. The effort established a strong microloan program, the Kansas City Regional Microloan Program, in the region in 2012 and added loan products up to \$250,000 to support startup and expanding businesses. Approximately \$10 million have been invested through microlending programs since 2012.

AltCap was approved as a Community Development Financial Institution (CDFI). This allows AltCap to leverage funds to underserved markets. In 2016,

INCREASING LOAN CAPITAL INVESTMENT

OBJECTIVE 1

Increase Kansas City Regional Microloan program capital pool by \$2 million, growing the pool from \$3 million to \$5 million by 2018

PROGRESS More than \$3 million in microloans in 2016

OBJECTIVE 2

® Establish a \$5 million SBA-backed microloan program by 2018

® Raise \$2 million to create or enhance a loan pool using U.S. Treasury Community Development Financial Institutions (CDFI) Fund by 2020

PROGRESS AltCap approved for \$5 million SBA Microloan Program and approved for CDFI Impacto Loan Fund made two loans

OBJECTIVE 3

Maximize the use of existing revolving loan funds in the region by convening ownership groups to determine available undispersed funds and mechanisms to move them into the market by 2016

PROGRESS KCSOURCELINK convened a focus group of local revolving loan funds in 2016 to determine which funds were active. There are 20 revolving loan funds available to KC area businesses

OBJECTIVE 4

Explore U.S. Treasury New Market Tax Credit options and develop a plan for their use to support entrepreneurs in the Kansas City region by 2016

PROGRESS Two local CDEs received New Market Tax Credits in 2016 but neither used these credits to provide financing for early-stage companies

AltCap announced two new microloan programs, one targeted to artists in partnership with the city of Kansas City, Missouri, and the other targeted to contractors in partnership with Port KC.

AltCap was also approved as an SBA microloan intermediary in 2017, giving the Kansas City community access to \$5 million in microloan capital. This moves the region forward significantly in its quest to provide debt financing for early-stage companies.

Increase Grant Capital Investment

GOAL

Increase local, state and federal grant funding to early-stage and R&D-focused businesses in the Kansas City region to \$6 million per year by 2020

STATUS

In 2015, Kansas City area firms netted \$5.9 million in SBIR/STTR grants. Reporting for 2016 grants is not complete.

DIGITAL SANDBOX KC AND LAUNCHKC

Digital Sandbox KC and LaunchKC have emerged as cornerstones of the early-stage funding continuum; however, state and federal support for these programs is expected to decrease.

Support through these grant programs is provided without a loan or ownership changing hands. LaunchKC grants of \$50,000 became available in 2015 to attract companies to Kansas City, Missouri. Digital Sandbox KC, established in 2013, provides support for proof-of-concept projects, and expanded to include the Energy Sandbox in 2016. A number of companies are involved in crowdfunding and others take advantage of national contests.

SBIR/STTR GRANTS

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

INCREASING GRANT CAPITAL INVESTMENT

OBJECTIVE 1

Raise awareness of Small Business Innovation Research funding and increase the amount of regional SBIR funding from \$2 million to an average of \$3 million per year by 2018, \$5 million by 2020

PROGRESS

® UMKC SBTDC offers Winning Federal Research Grants: SBIR/STTR Workshop

® JCCC SBDC offers Unlocking the Secrets of SBIR Searches

® ECJC offers an SBIR workshop as part of its Capital Series. Classes are presented throughout the year

OBJECTIVE 2

Secure additional proof-of-concept funds for Digital Sandbox KC to maintain funding at \$600,000 per year, including administration, through 2018, supporting a minimum of 20 proof-of-concept projects per year

PROGRESS Digital Sandbox has funding for five years and continues to work with local municipalities to increase the funding. State and federal support for the program is expected to decrease over the next few years

OBJECTIVE 3

Support investment in emerging grant programs

PROGRESS LaunchKC has been funded successfully for two cohorts. State support for the program is expected to decrease

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 companies that have received funding through these programs include PatientsVoices, Meactive Medical, Flow Forward Medical, Ansera Analytics and KalScott Engineering.

A concerted effort has been made to increase the number of federal grant applications from local firms. Both the Small Business Development Center at Johnson County Community College and the Small Business and Technology Development Center at UMKC have provided specialized training and counseling to help firms file successful grant applications. The result of this outreach and technical assistance has been almost \$6 million in SBIR/STTR grants flowing into area firms.

EQUITY

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. 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).

Increase Seed Capital Investment

GOAL

Increase seed capital investments (under \$1 million) from approximately \$3 million per year to more than \$10 million per year by 2020

STATUS

In 2016, 88 firms raised \$5.3 million in seed capital investments.

Kansas City has had two strong angel groups, Mid-America Angels and Women’s Capital Connection, for a number of years. Started in 2006 and 2008 respectively, these groups comprise approximately 180 angels and have averaged \$2.5 million in investment each year for the past five years. Recently, Northland Angel Investment Network was formed to connect investors north of the river with early-stage entrepreneurs. MAA has expanded to St. Joseph and Manhattan.

In the face of a tight state budget, Kansas continues to support the Angel Investment Tax Credit Program, which provides investors with a 50 percent state tax credit for qualified angel investments. The program has encouraged angel investment in the Kansas City region. The ability to sell these credits has also encouraged investors outside the region to make local investments.

In Missouri, seed funding had been available through the Missouri Technology Corporation. Recent state budget restrictions have cut the MTC budget significantly, and its ability to fund early-stage companies is in question.

A few private investor groups have also stepped into the seed capital space in the past two years. iiM has shifted its focus to agriculture, animal and human health and has announced one investment. Royal Street Ventures, an early-stage investment fund based in Utah, set up shop in Kansas City in 2016, bringing access to a \$25 million fund. Royal Street has made two local investments.

INCREASING SEED CAPITAL INVESTMENT

OBJECTIVE 1

Increase the number of regional angel investors in organized groups from 140 to 240

PROGRESS 200 angel investors

OBJECTIVE 2

Double the investment from regional angel groups from an average of \$1.7 million per year to an average 10 deals per year and \$3.5 million investment by 2018, \$5 million by 2020, essentially funding one deal per month

PROGRESS Angel investment doubled from 2012 to 2016, 15 investments (more than one deal per month); \$3.6 million in investment

OBJECTIVE 3

Establish a new minimum \$5 million seed capital fund headquartered in the region to make early-stage investments in information technology and life sciences firms by 2018 with a goal of increasing the number of annual \$100,000–\$1 million investments to 10 per year by 2020

PROGRESS

® Royal Street Ventures brought \$25 million fund to Kansas City

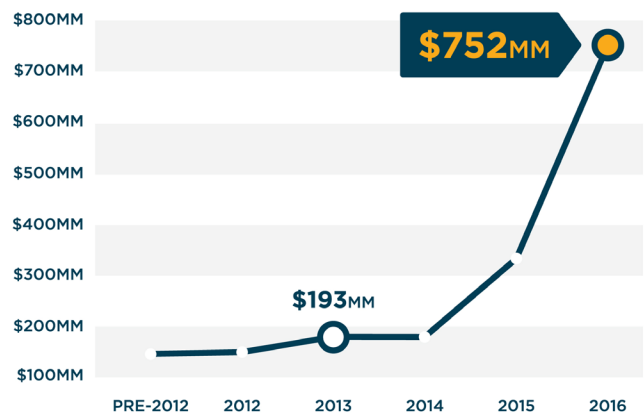
® Average 36 deals in the \$100,000 to \$1 million range each year from 2013 to 2016

Perhaps the most improvement in Kansas City's capital continuum can be found in the venture capital space. In 2015, the Kansas City region was far below national and regional peer regions in investment from venture capital firms. At that time, the newly formed Flyover Capital (a \$45 million fund) was one of the few local firms investing in the \$1 million–\$5 million space.

Since then, two additional funds have been established. Firebrand Ventures is focused on seed funding in the IT space. The KCRise Fund will make co-investments alongside other VCs.

Another goal was to encourage regional VCs to open offices here. Dundee Ventures from Omaha and Lewis & Clark Ventures from St. Louis both created a presence in the Kansas City area. Additionally, several other regional VCs expressed significant interest in KC firms: Drive Capital, Service Provider Capital and Prairie Crest Capital, to name a few. All told, the pool of identified capital increased 290 percent from 2013 to 2016.

290% INCREASE IN AVAILABLE CAPITAL FOR KANSAS CITY ENTREPRENEURS



Combined value of early-stage funds available to KC entrepreneurs
Data tracked and compiled by KCSOURCELINK
Source: Various public sources and private databases

Increase Venture Capital Investment

GOAL

Double the number of venture capital firm investments of \$1 million–\$10 million on a yearly basis by 2020

STATUS

The number of investments in the \$1 million to \$10 million range has remained flat at 20 deals each year from 2013 to 2016.

INCREASING VENTURE CAPITAL INVESTMENT

OBJECTIVE 1

Increase support for Flyover Capital I and add Flyover Capital II by 2020

PROGRESS Flyover Capital I established

OBJECTIVE 2

Establish a new \$50 million venture capital investment fund headquartered in the region to make investments in IT and life sciences sectors by 2018 with a goal of increasing the number of annual \$1-\$10 million+ rounds of investment by 10 per year by 2020

PROGRESS Firebrand Ventures and KCRise Fund established; \$21 million total pool

OBJECTIVE 3

Establish and maintain regional offices for at least two national or international venture capital firms headquartered outside of Kansas City

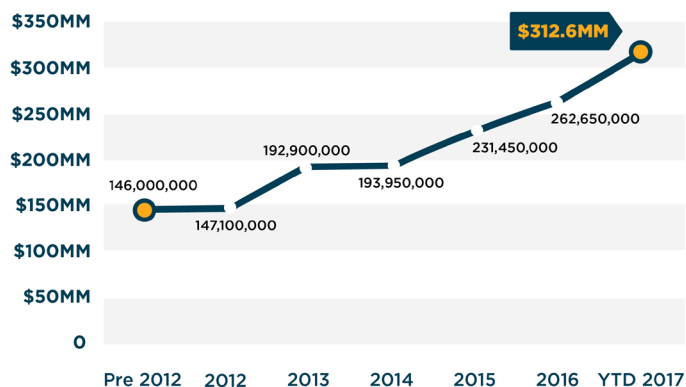
PROGRESS Dundee Venture Capital and Lewis & Clark Ventures; \$116 million total pool

OBJECTIVE 4

Position the community to apply for matching U.S. SBA SBIC Early Stage License funds by working with an existing SBIC or fund or by building fund with right experience

PROGRESS No action has been taken in this area

INCREASE IN AVAILABLE CAPITAL KANSAS CITY-BASED ONLY



Even when the regional funds are stripped away, there has still been a substantial increase in the available capital from Kansas City-based angel groups, grant programs and venture capital funds.

Another challenge identified in 2015 was the “invisibility” or “inaccessibility” of local investors. Part of the increase in the capital pool can be attributed to a concerted effort to get local investors to be more transparent about their particular investment interests. It is critical that entrepreneurs know how to identify and access appropriate capital sources in Kansas City. The pathways to those 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.” KCSOURCELINK developed [CapitalMatch](#) as another way to connect entrepreneurs to investors. Although the investors remain “invisible,” the pathway or gate is clear for the entrepreneur.

BACKGROUND

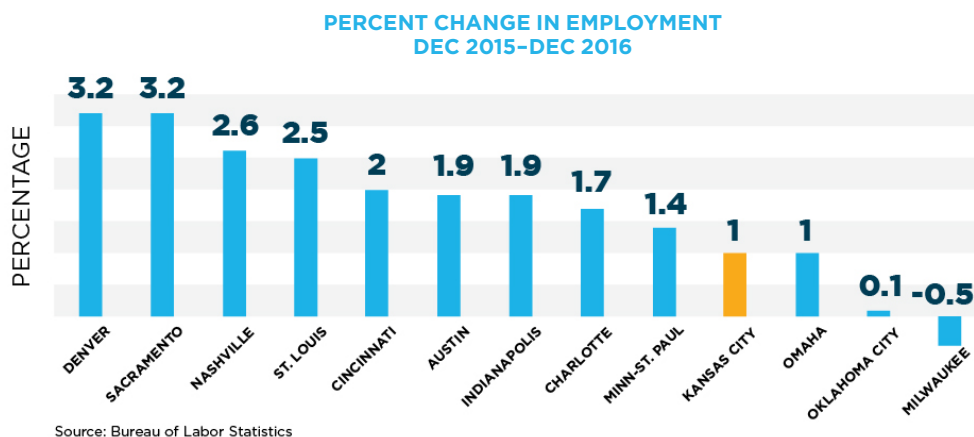
Research by the Kauffman Foundation shows that of the 12 million new U.S. jobs added in 2007 alone, young firms (up to age 5) were responsible for the creation of nearly 8 million jobs. Of the 12 peer metros typically used for benchmarking the region, Kansas City has been one of the lower ranking cities in terms of employment growth since 2014.

The most recent number comparing December 2015 to December 2016 still put Kansas City at 1 percent change in employment. Fully leveraging and sustaining the emerging entrepreneurial movement is critical to increasing job growth in Kansas City.

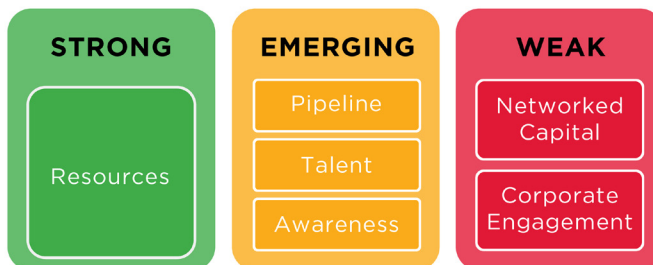
In 2012, the Kansas City region began working toward becoming America's most entrepreneurial city. A series of community conversations led by a variety of groups including the Greater Kansas City Chamber of Commerce, Economic Development Corporation of Kansas City, the city of Kansas City, Missouri, and others defined both strengths and areas for improvement for the entrepreneurial ecosystem.¹

From that research and discussions with entrepreneurs, resource organizations and community leaders, a picture of the Kansas City entrepreneurial ecosystem emerged.

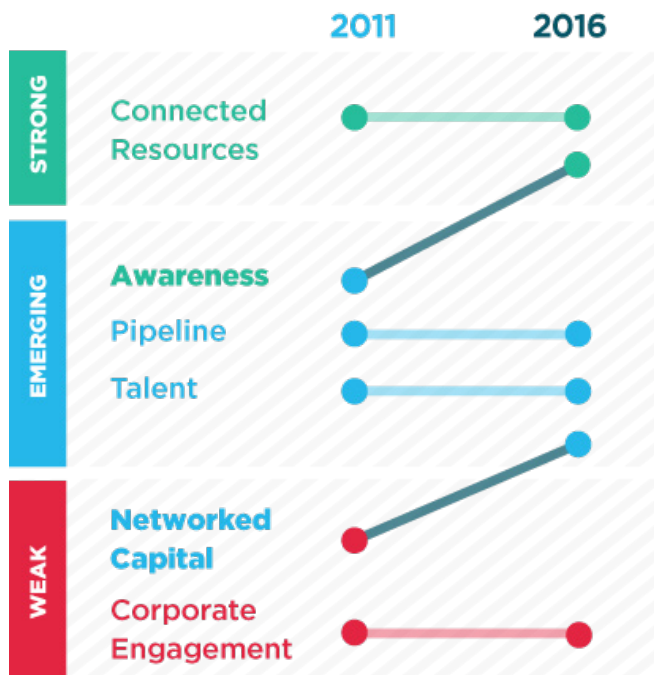
KCSourcLink went back to the community in 2016 to determine if we are changing the perceptions and realities of these key areas. The good news: Perceptions are changing.



THE KANSAS CITY ENTREPRENEURIAL ECOSYSTEM 2011



¹Greater Kansas City Chamber of Commerce, Voices from "Big KC's" entrepreneurial community. March, 2012. Retrieved May 15, 2013 from <http://www.big5kc.com/wp-content/uploads/2012/01/Final-VoicesfromtheCommunityeditedv3FINAL1.pdf>; AdvanceKC Competitive Snapshot, submitted by Market Street Services, Inc. April, 2012; City of Kansas City, MO Special Committee on Small Business. Report of Findings, Recommendations and Ongoing Actions. Dec. 8, 2011. Retrieved May 15, 2013 www.kcmo.org/idx/groups/citymanager/documents/citymanagersoffice/sbc_original_report.pdf; Mayer, H., Entrepreneurial community in Kansas City: from fragmented to collaborative? Ewing Marion Kauffman Foundation, 2012; Feldman, Maryann P. and Zoller, Ted, Dealmakers in Place: Social Capital Connections in Regional Entrepreneurial Economies (March 1, 2012). Available at SSRN: <http://ssrn.com/abstract=2014302> or <http://dx.doi.org/10.2139/ssrn.2014302>



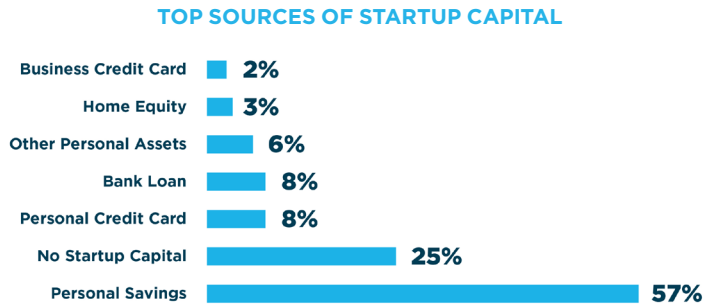
Kansas City is moving the needle for our entrepreneurs in the six key areas that were identified as imperative to making Kansas City supportive for entrepreneurs. Networked capital is one of the areas that has seen improvement.

- ▶ Expansion of available pool of early-stage equity capital
- ▶ Expansion of microlending programs
- ▶ Increased connectivity in the investor community

This report will look at the state of capital access for early-stage companies, addressing debt, grants and equity.

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 percent). Personal credit cards account for 8 percent of the top sources of startup



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

capital, as do bank loans. About one quarter of startups do not need startup capital.²

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 \$80,000.³

According to the SBA, venture and angel capital are a relatively small part of business financing, making up less than 2 percent.

A key point in understanding how Kansas City 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.

Innovation-Led

Innovation-led enterprises are businesses in which research and development brings forth an innovative product or process. The innovation typically involves intellectual property that contributes to a strong competitive advantage in the marketplace and serves as a foundation for a high rate of growth. Often formed around life sciences or technology innovations, these enterprises can require significant funding and specialized facilities.

²Survey of Business Owners. SBA Office of Advocacy from U.S. Census Bureau, 2012

³SBA Office of Advocacy from U.S. Census Bureau, 2014. Retrieved July 2017 from https://es.sba.gov/sites/default/files/2014_Finance_FAQ.pdf

⁴Edward Lowe Foundation. Retrieved July 2017 from <http://edwardlowe.org/entrepreneurship-programs/>

FUNDING SOURCE: This group is the most likely to seek equity investment from angel and/or venture capital investors. New innovations are also the most likely candidates for early-stage federal assistance like SBIR.

Second Stage

Second-stage enterprises have survived the startup phase and have owners who are focused on growing and expanding their business. Second stage firms generally have 10 to 99 employees and/or \$750,000 to \$50 million in revenue.⁴ Key priorities are strategic marketing for customer acquisition, expansion of operations, global expansion and attracting leadership talent.

FUNDING SOURCE: As they frequently have collateral and track records, these are more likely candidates for bank financing and lines of credit until expansion overcomes the supply of capital and equity investment is a good option.

Main Street

Main Street companies make up a large segment of the economy, serve communities' growing populations and define a community's cultural character. These entrepreneurs are found among local dry cleaners, grocery

store owners, coffee shop owners, restaurateurs or graphic design boutiques.

FUNDING SOURCE: Most of these companies fund startup through personal savings and growth through ongoing cash flow. Lines of credit, SBA-backed loans and microloans are also sources of funding.

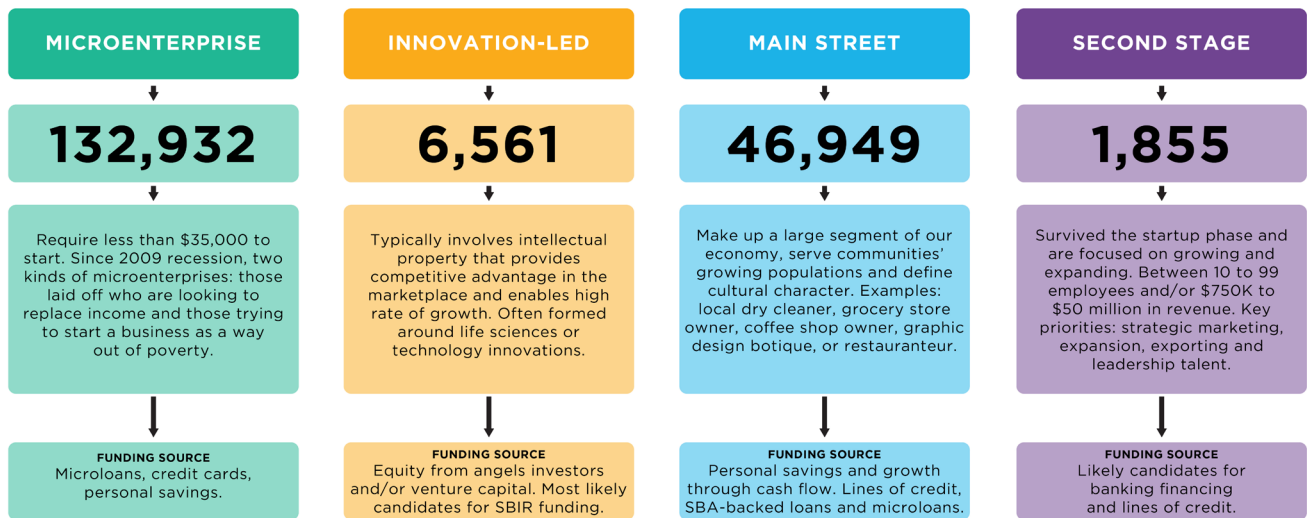
Microenterprise

By definition, microenterprises are businesses requiring less than \$35,000 in capitalization to start. Since the 2009 recession, two kinds of microenterprises are observed: those started by people who were laid off from large corporations looking to replace income by establishing consulting businesses and those trying to start a business as a pathway out of poverty.

FUNDING SOURCE: Microloans, credit cards and personal savings support this type of business until it positively cash flows.

It is also important to note the numbers of companies in each category. The chart below captures this distribution in the Kansas City, MO-KS CSA.⁵

SOURCES OF CAPITAL BY TYPE OF ENTREPRENEUR



⁴Data from U.S. Census Bureau County Business Patterns, 2011. Microenterprise numbers reflect non-employees. Second Stage numbers derived from Romitti, M., Bruton, M., Harrington, W. 2008, *Chasing Cheetahs: Lessons from Missouri's Fastest Growing Businesses*, 2008. Retrieved July 2017 from www.missourieconomy.org/pdfs/cheetahstudyfinalversion.pdf. Starters derived from Reynolds, Paul D., et al. *The Entrepreneur Next Door, Characteristics of Individuals Starting Companies in America*. Kauffman Foundation, 2002. Retrieved July 2017 from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1262320

KANSAS CITY REGIONAL EARLY-STAGE LOAN FINANCING



Kansas City has a variety of capital options through savings banks, savings and loan associations and commercial banks. As a regulated industry, banks are limited in investment options and most 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 both to support business operations and to improve the credit score of individuals creating businesses to better position them to qualify for other funding options.

These alternative loan products are supported through 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 next chart (page 15) outlines the various sources of loan funding available in the Kansas City area 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.

Secured Credit Cards, 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.⁶ 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. The Women's Employment Network, Guadalupe Center, the Rockhurst Prosperity Center and the Community Services League offer these kinds of services. A few Kansas City organizations used to offer emergency loans, but those are no longer available.

Of note: Low-to moderate-income individuals can also 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 in Kansas City through the Hispanic Economic Development Corporation.

⁶U.S. Small Business Administration Office of Advocacy, Frequently Asked Questions about Small Business Finance, February 2014. Retrieved July 2017 from www.sba.gov/sites/default/files/2014_Finance_FAQ.pdf

KANSAS CITY EARLY-STAGE LOAN INFRASTRUCTURE

	LOAN SIZE					
	<\$1,000	\$0—50K	\$50K—25K	UP TO \$350K	UP TO \$500K	UP TO \$5MM
PERSONAL EMERGENCY LOAN						
SECURED CREDIT CARDS	✖					
CREDIT BUILDING LOANS	✖					
MICROLOANS		✖				
REVOLVING LOAN FUNDS	✖	✖	✖			
CDFIs	✖	✖	✖	✖	✖	✖
SBA BANK LOAN GUARANTEES						
Community Advantage			✖			
Small Loan Advantage				✖		
SBA Express				✖		
SBA Veterans Advance				✖		
Export Express					✖	
7(Z)/504						✖
Cap Lines						✖
International Trade						✖
Export Working Cap.						✖

Non-Bankable

Bankable

Microloan 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 have closed the gap. Microloan programs provide very small, short-term loans at low interest, 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.

Justine PETERSEN administers a microloan fund in Kansas City in partnership with OneKC for Women, AltCap (formerly the KCMO CDE), the city of Kansas City, MO KC BizCare center and other partners including a number of financial institutions. WE-Lend, through OneKC for Women and its Women's Business Center, launched in 2015 with microloans geared to women. The Hispanic Economic Development Corporation's Impacto Loan Fund (started in 2012) made two loans to area businesses in 2016.

AltCap was approved as an SBA microloan intermediary in 2017, giving the Kansas City community access to \$5 million in microloans. This moves the region forward significantly in its quest to provide debt financing for early-stage companies.

SBA-Backed Loans

The SBA offers a range of guarantees that help banks provide loan access to small businesses; 7(a) and 504 are the most commonly used tools.

SBA 7(a) Loans

The 7(a) guarantee assists in getting a term loan from a bank and has a broad range of uses, including establishing a new business or assisting in the acquisition, operation or expansion of an existing business. Other loan guarantees help companies obtain financing for working capital and international trade. Many lenders throughout the region utilize SBA guarantees to provide small business loans.

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.⁷ The 504 program distributes the loan among three parties: the business owner contributes a minimum of 10 percent, a conventional lender (typically a bank) puts up 50 percent, and the CDC puts up the remaining 40 percent. 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 percent SBA-guaranteed debenture.

504 lenders in the Kansas City region include Heartland Business Capital, Inc., Wakarusa Valley, EDC Loan Corporation of Kansas City, MO-KAN, RMI, Midwest Small Business Finance and Greater Kansas City Local Initiatives Support Corporation (LISC).

Community Advantage Funds

Community Advantage is an SBA-guaranteed loan program helping entrepreneurs launch or expand small businesses, particularly in low- to moderate-income

communities. It supports loans between \$50,000 and \$250,000 for businesses that cannot meet required bank standards, whether due to lack of available collateral, low cash flow, poor credit history, a high debt leverage ratio or a combination of these issues. The loans can be used for business expansion. In Kansas City, these are provided through Justine PETERSEN.

Revolving Loan Funds

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. In the Kansas City region, revolving loan funds are held at AltCap, the Hispanic Economic Development Corporation, EDC Loan Corporation, MO-KAN, Johnson County EDC, Clay County Economic Development Corporation and Midwest Small Business Finance.

Community Development Financial Institutions

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 that supply underserved markets with traditional retail banking services like savings accounts and personal loans
- 2) microenterprise funds, which provide small amounts of business capital to small scale entrepreneurs
- 3) community development loan funds lend to growing businesses and real estate development entities;

⁷Certified Development Companies (CDCs) are nonprofit corporations certified and regulated by the SBA that work with participating lenders to provide financing to small businesses. There are 270 CDCs nationwide, each covering a specific geographic area.

4) community development corporation-based lenders and investors

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.⁸

AltCap was approved as a CDFI in 2015. This has allowed AltCap to access loan capital to deploy in underserved markets. 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).

Regional CDFIs and emerging CDFIs formed the Kansas City CDFI Coalition with the intention of sharing potential projects and educating the community on the impact of CDFI activities.

Banks

Banks are interested in funding companies with a proven track record of sustainable income and/or assets that can be pledged as collateral. Banks 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.

2016 LOAN FINANCING LEVELS

Microloans

Kansas City has been making progress toward building a cohesive infrastructure for loans less than \$250,000 for non-bankable entities. That infrastructure did not exist in Kansas City in 2009. Since then, Justine PETERSEN has become an active player in the Kansas City market. The Women’s Business Center launched its WE-Lend microloan program and AltCap started targeted loans programs for artists and contractors.

These three groups, along with the Hispanic Economic Development Corp., make up the KC Microloan Coalition, which is dedicated to serving the needs of micro-lending clients in the Kansas City area.

⁸CDFI Coalition, What are CDFIs?, 2015. Retrieved July 2017 from <http://www.cdfi.org/about-cdfis/what-are-cdfis/>

2016 KANSAS CITY MICROLENDING

ORGANIZATION	NO. OF LOANS	TOTAL LOAN VALUE
Justine PETERSON	252	\$2,522,124
AltCap	11	\$428,245
WE-Lend	5	\$64,000
HEDC Impacto	2	\$55,000
TOTAL	270	\$3,069,369

Average loan size: \$11,368
Default rate: <3%

KANSAS CITY MICROLOAN IMPACT ON TARGET AUDIENCES

AUDIENCE ⁹	NO. OF LOANS	TOTAL LOAN VALUE
KCMO Low-Income Census Tract	123	\$1,369,958
Veteran-Owned Business	19	\$120,236
East of Troost	164	\$1,709,508
Historic Northeast	12	\$86,757
Wyandotte County	41	\$365,524
Minority Owned	214	\$1,891,257
Women Owned	175	\$1,753,804

2012-2016 CUMULATIVE KANSAS CITY MICROLENDING

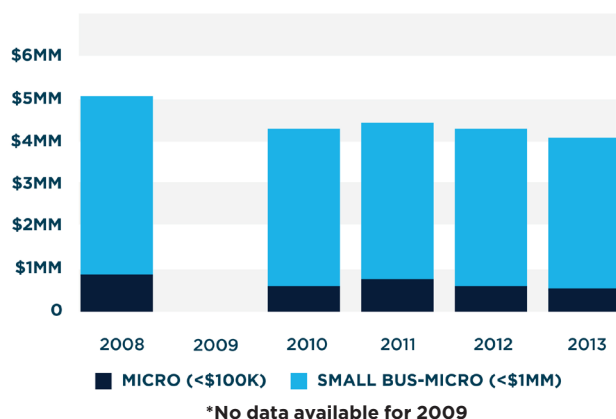
ORGANIZATION	NO. OF LOANS	TOTAL LOAN VALUE
Justine PETERSON	978	\$9,906,362
AltCap	11	\$428,245
WE-Lend	5	\$64,000
HEDC Impacto	14	\$210,579
TOTAL	994	\$10,609,186

⁹Some loans fall into more than one category

Savings Banks, Savings and Loan Associations and Commercial Bank Loans

A lending study conducted by the U.S. SBA 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. Credit card lending is also examined. Ratios provide an indication of banks that are most likely to lend to small businesses.

LOAN VALUE FOR DEPOSITORY LENDERS Kansas City, MO-KS CSA, 2008-2013 (savings banks, savings and loan associations and commercial bank loans)



For lenders headquartered in the 22-county Kansas City, MO-KS CSA (2008-2013), both the number of loans and the dollar amount have remained relatively flat and remain below prerecession levels for both overall small business loans (under \$1 million) and microloans (under \$100,000).

SBA-Backed Loans

Commercial lenders partner with local businesses utilizing SBA guarantees to provide loans to a variety of businesses throughout the community. In addition, 504 intermediaries provide SBA-guaranteed loans. The top in the Kansas City CSA region during 2016 were:

BANK	# OF LOANS	TOTAL \$ LOANED
Alterra Bank	49	\$23,203,900
CrossFirst Bank	27	\$18,862,500
Bank of the Prairie	16	\$14,550,000
Summit Bank of Kansas City	9	\$9,560,300
U.S Bank	42	\$9,147,200
Wells Fargo Bank	19	\$9,140,900
Live Oak Banking	9	\$8,885,000
Rural Missouri Inc. (RMI)	10	\$7,396,000
Central Bank	11	\$6,324,900
UMB Bank	18	\$5,479,035

504 Loan Funds

SBA 504 Loan intermediaries in the Kansas City region include Heartland Business Capital, EDC Loan Corporation of Kansas City, Wakarusa Valley, MO-KAN, RMI, Midwest Small Business Finance and Greater Kansas City LISC.

Community Advantage

A Community Advantage loan product is important to the Kansas City region because it provides funding at levels between \$50,000 and \$250,000, significantly higher than microloan funds. Justine PETERSEN began to provide this product in the Kansas City market in 2014. Greater Kansas City LISC is working with its national organization to bring this product to Kansas City and began funding businesses through this mechanism in 2015. LISC also offers funding through the Kiva Zip online loan crowdfunding platform.

Revolving Loan Funds

Other available loan pools 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 and include those listed on the following page.

MISSOURI/KANSAS

▶ **The Hispanic Economic Development Corporation Impacto Loan Fund** is a microloan program that averages between \$1500 and \$25,000 per loan. About \$230,000 has been distributed.

▶ **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.¹⁰

▶ Missouri and Kansas receive funding from the **U.S. Environmental Protection Agency** to offer Brown-fields 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 both Missouri and Kansas. 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** and the **Kansas Department of Commerce** offer financial assistance through grants to companies to attend international trade shows to expand markets.

MISSOURI ONLY

▶ The **EDC of Kansas City Missouri** offers the following tools in partnership with banks. The borrower pays 10 percent of the total project costs, the EDC loan program pays 40 percent and the third-party lender pays 50 percent

® 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, Missouri, neighborhoods in need of revitalization. Up to \$150,000 is available for building acquisition and improvement and acquisition of machinery and equipment.

▶ **Midwest Small Business Finance** maintains a direct loan program, offering loans of \$25,000–\$150,000+ to healthy existing eligible small business concerns located in 20 northwest Missouri counties.

▶ **Johnson County Missouri Economic Development Corp** provides \$4000–\$10,000 loans for startup or expanding companies that will result in the creation or retention of jobs.

▶ **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.

▶ 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 percent of the project funding, \$3 million/project or \$75,000 per new or retained job as a result of the project.

¹⁰Data from Mo-Kan. Retrieved July 2017 from <http://www.mo-kan.org/index.php/business/loan-programs>

▶ The Missouri Department of Agriculture offers two loan options:

® Direct loans up to \$20,000 through the **Agriculture Development Fund** to finance the production, processing and marketing needs of an alternative agricultural enterprise.

® The **Missouri Agribusiness Revolving Loan Fund** provides from \$75,000–\$112,000 in funds to support agribusiness in Missouri towns with population of less than 50,000.

▶ 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 percent. Loan sizes range between \$90,000 and \$250,000.

KANSAS ONLY

▶ The **Unified Government of Wyandotte County Revolving Loan Fund** provides up to \$200,000 for real estate, machinery and equipment or working capital. The fund requires a 2:1 private-to-public dollar match and expects the applicant to create one new full time job for each \$50,000 loaned.

▶ NetWork Kansas provides two loan options for Kansas businesses:

® **Startup Kansas** provides loans of up to \$45,000 to businesses located in rural and distressed areas in Kansas. In the Kansas City region, specific areas in Wyandotte County are eligible.

® Under the **Kansas Capital Multiplier Loan Fund**, businesses can apply for matching loans up to 9 percent of the private capital invested. Private capital includes the amount provided by financial institutions, certified development companies and other private lending sources as well as the entrepreneurs' investment and angel investment. The minimum loan is \$25,000, with a maximum of \$100,000 (originally

\$500,000). Since the fund began in 2012, Kansas has supported 11 companies within 100 miles of the Kansas City center for a total of \$2,060,358.

▶ NetWork Kansas also offers the **Minority and Women Business Multiplier Loan Fund**, which provides \$25,000 to \$100,000 loans to match up to 20 percent of private investment for minority and women businesses certified with the state of Kansas.

FUNDING ADDITIONAL 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.

Bank Community Reinvestment Act

Microloan programs in Kansas City are dependent upon raising funds for the initial loan pool and ongoing administration costs. The Community Reinvestment Act of 1977 is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations. Banks are graded on their efforts. Lending institutions can receive favorable CRA consideration for investments in a pool that would be used to make microloans to promote economic development in a regional area that includes the institution's assessment area. Therefore, CRA investments by banks have become a mechanism to fund microloan programs.

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.

Kansas was allocated \$13,168,350, and Missouri \$26,930,294. Each state divided their funds, putting some into a loan program and some into an equity-capital pool. Kansas used the funds to create the Kansas Capital Multiplier Loan Fund and Kansas Venture Fund administered by NetWork Kansas. Most of the Venture Fund has been deployed. Missouri allocated the funds to support the GROW Missouri loan fund (\$16.9 million) and the IDEA (Innovation, Development and Entrepreneurship Advancement) Fund (\$10 million), administered by the Missouri Technology Corporation. Companies that access the funds must leverage the funds through matching investments. Those funds have also been deployed.

The SSBCI is a one-time program of limited duration. The authorities and duties of the Secretary of Treasury to implement and administer the program terminate on September 27, 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 will stay with the state to continue the funds.

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

- ▶ To provide community development financial services, such as basic banking services, financial literacy programs and alternatives to predatory lending

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. 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 the Kansas City region¹¹:

- ▶ AltCap, Kansas City, Missouri
- ▶ Central Bancshares of Kansas City, Inc.
- ▶ Depository Institution Holding Company, Kansas City, Missouri
- ▶ Central Bank of Kansas City, Kansas City, Missouri
- ▶ Holy Rosary Credit Union, Credit Union, Kansas City, Missouri
- ▶ St Luke's Credit Union, Credit Union, Kansas City, Missouri

¹¹Data from CDFI Fund. Retrieved July 2017, <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>

- ▶ KC Terminal Employees/Guadalupe Center FCU, Credit Union, Kansas City, Missouri
- ▶ Missouri Central Credit Union, Credit Union, Lee's Summit, Missouri
- ▶ United Consumers Credit Union, Credit Union, Independence, Missouri
- ▶ Justine PETERSEN Housing and Reinvestment Corporation, operates in Kansas City (based in St. Louis)

The following local CDFIs have received awards in the past five years:

Financial Assistance Awards

Central Bancshares of KC	2013	\$597,000
Central Bancshares of KC	2014	\$1,088,666
Central Bancshares of KC	2015	\$759,334

Technical Assistance Awards

KC Terminal Employees/ Guadalupe Center FCU	2013	\$72,304
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Many communities utilize this mechanism to fund microloan programs and other funding pools for small businesses. This mechanism is not widely leveraged for that purpose in the Kansas City region.

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 percent 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.

The following are CDEs in the Kansas City Region¹²:

- ▶ AltCap
- ▶ Americo New Horizons
- ▶ Applied Urban Research Institute
- ▶ BC Community Development Funds, LLC
- ▶ Building/Knowledge New Markets LLC
- ▶ CCM New Markets
- ▶ Central Bancshares of Kansas City, Inc.
- ▶ Central Bank of Kansas City
- ▶ Douglass Bancorp
- ▶ Douglass National Bank
- ▶ Garrison Revitalization Properties
- ▶ Hall Family Foundation CDE, Inc.
- ▶ Heartland New Markets LLC
- ▶ Historic Northeast Restoration Corporation
- ▶ Housing & Economic Development Financial Corporation
- ▶ Kansas City, Kansas Housing Authority
- ▶ Midtown Community Development Corporation
d/b/a Community Builders
- ▶ Traditional Marketplace Finance Corporation
- ▶ Travois New Markets, LLC

History of CDEs receiving NMTC allocations in Kansas City¹³:

Central Bank of Kansas City	2012	\$45,000,000
AltCap	2012	\$45,000,000
Central Bank of Kansas City	2013	\$43,000,000
AltCap	2013	\$38,000,000
Central Bank of Kansas City	2014	\$60,000,000
CBKC CDC LLC	2016	\$80,000,000
Travois New Markets	2016	\$50,000,000

¹²Data from CDFI Fund. Retrieved June 2017 from https://www.novoco.com/sites/default/files/atoms/files/cde_bystate_080212.pdf

¹³Ibid.

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 like AltCap are using 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. AltCap capitalized a \$5 million NMTC Small Business Loan Fund in 2016 and used it to make five small business loans averaging \$1 million. While the NMTC Program can be used to provide more equity-like financing to high potential startup, it has not been widely leveraged for that purpose in the Kansas City region.

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

History of banks receiving BEA allocations in Kansas City in the past 5 years¹⁴:

Central Bank of Kansas City	2012	\$415,000
Metcalf Bank, Lee's Summit	2012	\$60,000
Central Bank of Kansas City	2013	\$254,792
Central Bank of Kansas City	2014	\$355,000
Central Bank of Kansas City	2015	\$265,496

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. This program has not been active since 2008, but the Federal Housing Authority awarded one grant to a Kansas City area organization in 2016.

Central Bank of Kansas City	2016	\$2,800,000
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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 guarantee. SBA-guaranteed loans may not be made to a small business if the borrower has access to other financing on reasonable terms.

¹⁴ Data from CDFI Fund. Retrieved June 2017 from <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. 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. The loan must be repaid within 10 years.

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
- ▶ 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 percent of any loan that it receives from the SBA. The contribution may not be borrowed. For purposes of this program, Community Development Block Grants are considered non-Federal sources.

AltCap was recently selected for the SBA Microloan Program.

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.

The following organizations have loan pools created through this program:

- ▶ Kansas City Economic Development Corporation
- ▶ MO-KAN Regional Council of Governments
- ▶ Unified Government of Wyandotte County/
Kansas City, Kansas

U.S. Department of Commerce EDA programs all require 1:1 match from the local community to access funds. Kansas City could increase activity in this area.

U.S. Department of Agriculture Programs

RURAL BUSINESS ENTERPRISE GRANTS (RBEG)

Rural business enterprise grant (RBEG) funds may be used to: create, expand or operate rural distance learning networks or programs that provide educational or job training instruction related to potential employment or job advancement to adult students; develop, construct or acquire land, buildings, plants, equipment, access streets and roads, parking areas, utility extensions, necessary water supply and waste disposal facilities; provide refinancing services and fees; and to establish a revolving loan fund.

MO-KAN Regional Planning Commission was awarded a Rural Business Enterprise Grant (RBEG) from USDA in FY 2010 to create the RBEG Revolving Loan Fund available to small businesses located in rural areas.

RURAL MICROENTREPRENEUR ASSISTANCE PROGRAM (RMAP)

Established through the 2008 Farm Bill, RMAP provides low interest, 20-year loans of up to \$500,000 to capitalize a revolving microloan fund. The micro-

lender must establish and maintain a 5 percent loan loss reserve from their own funds. Funds are used to provide fixed-rate microloans of up to \$50,000 to rural entrepreneurs. RMAP also provides capacity grants to intermediaries to provide technical assistance to borrowers of up to \$100,000.

These programs are for communities of less than 50,000 in population and are relevant to outlying areas in the region.

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.

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. Many jurisdictions have allocated funds for microloan support and other small business activities.

The Neighborhood Commercial Revolving Loan Fund at the Kansas City EDC was created using CDBG funding.

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.

HOW TO ACCESS EARLY-STAGE LOAN CAPITAL IN KANSAS CITY

The vast array of so many different loan products makes it difficult for business owners to determine the most appropriate products and how to access them.

Eligibility for financing may require a business owner to prepare a business plan or other materials to support access. If the business or business owner is not ready to meet the requirements of the lender, it can be a frustrating experience. Working with regional KCSOURCELINK Resource Partners prior to connecting with the lenders can save considerable time and energy.

A first step is to contact the KCSOURCELINK hotline (816-235-6500) for an initial triage and information about options available and suggestions for the best route to obtain loan financing.

Organized and led by AltCap, a number of CDFI and microlending partners from across the region have joined together to create the GKC CDFI Peer Network to increase awareness about CDFIs and microlenders. The Network meets monthly to share updates on lending activity as well as identify ways to collectively support their lending efforts. Additionally, the Network is used to coordinate informational sessions to provide entrepreneurs with an explanation of the importance of credit in starting or growing their business, community resources providing counseling and training and the loan products available in the community with special emphasis on microloans. Central Bank of Kansas City, HEDC, OneKC for Women, the Women's Business Center, AltCap and other community resource partners are involved.

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.

Any of the following KCSOURCELINK Resource Partners involved in loan funding support can connect a business into the early-stage debt financing community:

ORGANIZATIONS THAT SUPPORT LOAN READINESS, LOAN PACKAGING AND TRUSTED REFERRAL BANK INTRODUCTIONS:

- ▶ Johnson County Community College Small Business Development Center
- ▶ Women's Business Center
- ▶ UMKC Small Business and Technology Development Center

ORGANIZATIONS WITH ALTERNATIVE LOAN FUNDS:

- ▶ AltCap, revolving loans
- ▶ EDC Loan Corporation of Kanas City, revolving loan funds
- ▶ Greater Kansas City LISC, Community Advantage Funds
- ▶ Heartland Business Capital, Inc., SBA 504 loan intermediary
- ▶ Johnson County MO Economic Development Corporation, revolving loan funds
- ▶ Justine PETERSEN, microloan fund
- ▶ KCMO CDE, revolving loan funds
- ▶ Midwest Small Business Finance, revolving loan funds
- ▶ MO-KAN, revolving loan funds
- ▶ NetWork Kansas
- ▶ RMI, revolving loan funds
- ▶ Women's Business Center, WE-Lend microloan fund

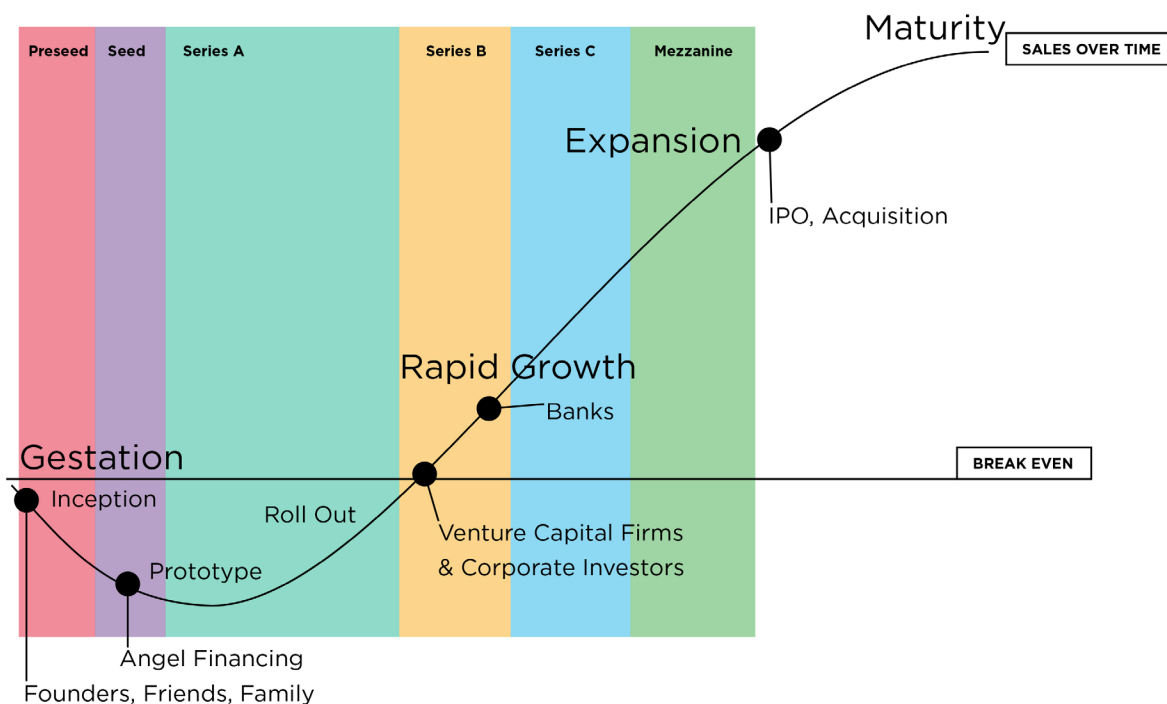
OVERVIEW OF EARLY-STAGE LOAN INFRASTRUCTURE

DEFINITIONS	Personal Emergency Loan	Secured Credit Cards	Credit Building Loans	Microloans	Community Advantage	SBA Bank Loan Guarantees	504 Loans	Bank Loans
	<i>Emergency use</i>	<i>Improve credit score</i>	<i>Improve credit score</i>	<i>Idea development and startup</i>	<i>Acceleration; underserved markets</i>	<i>Early operations and expansion</i>	<i>Ongoing operations and expansion</i>	<i>Ongoing operations and expansion</i>
Purpose	Emergency use	Establish or re-establish credit to repair a poor credit history	Establish or re-establish credit to repair a poor credit history	Loans provided to a small business that is unable to access capital from a traditional lender	Term loan for expansion, new construction, land or building purchase, refinance debt, seasonal line of credit, inventory or business startup	SBA does not make direct loans to small businesses. The business applies for a commercial loan with a guarantee by the SBA that these loans will be repaid.	Long term loans for major fixed assets such as equipment or real estate.	
Amounts	<\$500	<\$1,000	<\$2,500	<\$50,000 Avg. loan \$8,000, 2-5 yr term, 7-18% interest, less than 5% default	\$50,000- \$250,000	<\$5,000,000	<\$5,500,000	
Who Invests		Requires a personal cash deposit that becomes the credit line, e.g. if you put \$500 in the account, you can charge up to \$500.	Microlenders	Microlenders including SBA intermediaries	Community Development Financial Institutions, Certified Development Companies and Microlenders	Banks partnered with SBA guarantees	Banks partnered with Certified Deveopment Companies	Banks
Company Life Stage	Pre company	Pre company	Pre company	Start up and growth	Growth	Growth	Growth	Growth
Available Data	Good character	Good character	Good character	Good character	Good character, credit, management skills and ability to repay	Good character, credit, management skills and ability to repay	Good character, credit, management skills and ability to repay	Good character, strong financials, collateral
Risk Level	HIGH	HIGH	HIGH	HIGH	MODERATE	LOWER	LOWER	LOWER

KANSAS CITY REGIONAL GRANT AND EQUITY FINANCING

Young companies with large market potential often turn to equity investors for capital. Investors provide capital to these startup and early-stage businesses, generally in exchange for convertible debt or ownership 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.

CAPITAL CONTINUUM FOR EARLY-STAGE, EQUITY-SEEKING COMPANIES



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 are now providing important startup capital. 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.

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 capacity 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.

Examples of different strategies to raise capital:

▶ An IT company launched with \$25,000 from the founders. It then completed a \$200,000 seed stage round through: 1) a syndicate of individual angel investors investing \$100,000; and 2) a seed capital fund investment of \$100,000. A \$3 million venture capital financing round followed to launch the product and acquire a salesforce. After good initial market traction, a \$10 million investment was closed to drive customer acquisition and revenue. This investment round was led by a new investor, with participation from existing investors. After this, the company sold for \$70 million to a large technology company.

▶ A biotechnology company launched with \$100,000 from the founders then completed a seed round of \$750,000 from two angel investor groups leveraged by a \$1.5 million SBIR grant from the National Institutes of Health. This funding led to the identification of a drug for an important unmet clinical need. A \$20 million venture capital round was closed to complete a Phase 1 clinical trial, followed by \$50 million in financing to complete a Phase 2 clinical trial. After a successful Phase 2 clinical trial, the company completed an IPO.

KANSAS CITY REGION EARLY-STAGE & EQUITY INFRASTRUCTURE

	<\$100,000	<\$1MM	\$1MM–3MM	>\$3MM
Contests	✖			
Crowdfunding	✖			
Accelerators (TechStars, Sprint)	✖			
Grants (Digital Sandbox KC, LaunchKC)	✖			
SBIR/STTR Grants		✖	✖	
Angel Networks		✖	✖	
KC-Based Funds		✖	✖	
State Venture Funds	✖	✖	✖	
Venture Firms				✖

▶ A medical device company launched with \$10 million from a serial medical device entrepreneur and a few friends. A second \$10 million from existing investors successfully launched two innovative new medical devices and the company sold to a large medical device company for \$80 million.

FINANCING OPTIONS

Contests

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. Many competitions provide cash prizes for winners, which can provide startup or growth funds.

In Kansas City, the LaunchKC competition provides \$50,000 to 10 companies each year that agree to locate in Kansas City, Missouri. The UMKC Regnier Venture Creation Challenge Competition, a two-day business plan and speed-pitch event for university students in Missouri and Kansas, offers \$50,000 in total awards and seed funding to four top teams.

Crowdfunding

There are two types of crowdfunding platforms, reward-based platforms which have been around for several years and the new 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 product, t-shirts or other promotional materials in exchange for funding. No equity changes hands. Indiegogo and Kickstarter are examples of these platforms. According

to Fundable, the average successful reward-based crowdfunding campaign raised \$7,000 and runs for about nine weeks.¹⁵ 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.

Equity-based crowdfunding became a reality after the passage of the JOBS Act. New online platforms have allowed multiple accredited investors to put modest amounts of capital into companies, aggregated into a single financing. According to Inc.,¹⁶ the average raise on SeedInvest has been \$500,000.

The Kiva Zip program provides an online loan crowdfunding platform. Locally, AltCap and Greater Kansas City LISC support access to the Kiva program. AltCap is currently a KIVA Trustee and is in the process of helping secure a KIVA City designation for Kansas City.

Federal Research and Development 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. Grant can span several stages of funding 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) percent of their extramural R&D budget to the SBIR program. Those with budgets larger than \$1 billion must also set aside 0.3 percent for the STTR program, creating a funding

¹⁵Fundable, *Crowdfunding Statistics*. Retrieved July 2017 from www.fundable.com/crowdfunding101/crowdfunding-statistics

¹⁶Ryan 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>

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.

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. Many accelerators recruit internationally. The Global Accelerator Network now consists of 85+ accelerators.

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 \$100,000.¹⁷

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 match state and local incentive programs.¹⁸ 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.¹⁹

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 investment,

¹⁷ Angel Capital Association, FAQs on Angel Investing, Feb. 21, 2015. Retrieved July 2017 from <http://www.angelcapitalassociation.org/entrepreneurs/faqs/>.

¹⁸ Ibid.

¹⁹ Ibid.

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.

Venture Capital Firms

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.²⁰

Small Business Investment Companies

SBICs are privately owned and managed investment funds, licensed and regulated by the 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.

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 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.

Government Programs

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.

In Kansas and Missouri, examples include Kansas Angel Tax Credits and state-funded programs such as NetWork Kansas and Missouri Technology Corporation that provide early-stage capital to high-growth companies. MTC also provides capacity building grants to support organizations through its MOBEC program.

Locally, Digital Sandbox KC was established in 2013 through a grant from the U.S. Department of Commerce Economic Development Administration. The program provides support for proof-of-concept projects. In partnership with Missouri Technology Corporation’s Missouri Building Entrepreneurial Communities program (MOBEC), LaunchKC grants became available in 2015 to attract companies to Kansas City, Missouri.

Many state and local investments require private match to leverage public funding.

²⁰ Ibid.

STAGES OF INVESTMENT FOR TECHNOLOGY FIRMS

DEFINITIONS	Preseed	Seed	Series A	Series B	Series C	Mezzanine
	<i>Idea development; founding team</i>	<i>Product development; product/market fit</i>	<i>Product development; business model</i>	<i>Business development</i>	<i>Acceleration</i>	<i>IPO Prep</i>
Purpose	Idea development and formation of founding team	For research and development, proof-of-concept, product testing, prototype development. Companies move from idea to model and test product and market fit	Provides resources to further develop and scale the product; validate the business model (engage customers); and establish time to market	Funds are often used to scale a business allowing the company to complete product development, ship product and create early revenues	The Series C is often used by a company for operating capital to expand markets, to strengthen the balance sheet or to finance an acquisition.	Mezzanine financing usually helps a company prepare for an IPO or acquisition.
Amounts	<\$100,000	\$250,000-\$1MM+	\$1-3MM	\$3-7.5MM	\$7.5-10MM	\$10-20MM
Who Invests	Founder, friends and family; some state programs; contests; crowdfunding; SBIR; equity for service	Founders, friends and family; crowdfunding, angels Flyover Capital, MAA, WCC, UMB Capital Corp	Angels, VCs Flyover Capital, MAA, WCC	VCs Five Elms	VCs	VCs
Company Life Stage	Pre company	Early Development	Development	Shipping Product	Product Backlog	Profitable
Available Data	Little to none	Soft data, value proposition, founder experience	Validation, time to market, initial customer feedback	Preliminary revenues	Predictive revenues	Hard data, net income
Risk Level	Extremely high	Extremely high	Very high	High	Moderate	Lower
Expected rate of return	None	50-75%	40-60%	35-50%	30-40%	25-35%
Examples	Digital Sandbox companies	IdleSmart, Pop Bookings	Spider Oak, Farmobile	bloom, Paylt	Aratana	C2FO

STAGES OF INVESTMENT FOR MEDICAL DEVICE FIRMS

DEFINITIONS	Preseed	Seed	Series A	Series B	Series C	IPO
Purpose	Idea development and formation of founding team	Research and development, product development, proof-of-concept including nonclinical testing; product development and financing plans	Pilot clinical testing	Pivotal clinical testing; development of product pipeline; product launch	Sales force expansion; multiple product launches	Expansion of product offerings, often through acquiring other companies
Amounts	<\$100,000	\$250,000-\$1MM+	\$1-10MM	\$3-20MM	\$5-50MM	\$20-100MM
Who Invests	Founder, friends and family; startup grants, contests, angels, crowdfunding	Founder, friends and family, startup grants, contests, angels, crowdfunding MAA, WCC, KBA	VCs Flyover Capital	VCs Flyover Capital	VCs Flyover Capital	VCs/ Public Investors
Company Life Stage	Startup	POC	Development	Development, Regulatory Approval	Sales	M&A
Available Data	Bench testing of prototype	Nonclinical data	Nonclinical data, sometimes first-in-man human data	Pilot human data	Pivotal human data, sales growth	Breadth of product offering, market shares
Risk Level	High	High	Moderate	Moderate	Lower	Lower
Expected rate of return	None	50-75%	40-60%	35-50%	30-40%	25-35%
Examples			Flow Forward Medical Metactive Medical	Innara Health		

STAGES OF INVESTMENT FOR BIOPHARMACEUTICAL FIRMS

DEFINITIONS	Preseed	Seed	Series A	Series B	Series C	IPO
Purpose	Idea development and formation of founding team	Research and development, product development, proof-of-concept including nonclinical testing; product development and financing plans	Phase 1 clinical testing	Phase II clinical testing, development of an early pipeline of products	Phase II clinical testing, expansion of product pipeline	Phase III clinical testing, regulatory filings preparations for product launch
Amounts	<\$100,000	\$250,000-\$5MM+	\$3-30MM	\$10-50MM	\$20-70MM	\$50-200MM
Who Invests	Founder, friends and family, startup grants, contests, angels, crowdfunding	Founder, friends and family, startup grants, contests, angels, crowdfunding MAA, WCC	VCs	VCs	VCs	VCs/ public investors
Company Life Stage	Startup	POC	Development	Development	Development	Regulatory Approval
Available Data	Little to none	Nonclinical data	Nonclinical data, sometimes first-in-man human data	Phase I data	Phase II data	Phase II data
Risk Level	Extremely High	Extremely High	Very High	High	Moderate	Lower
Expected rate of return	None	50-75%	40-60%	35-50%	30-40%	25-35%
Examples		Orion Biosciences		Crititech		Proteon Therapeutics

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 TechCrunch and CB Insights, which search SEC files, local media and the business owners themselves. In addition, some information is in the public realm and other is private. Therefore, it is difficult to gain a full and complete picture of early-stage equity funding in a given region. Numbers reported here are based on a snapshot of all known data as of December 31, 2016. 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.) Data includes companies within a 100-mile radius of Kansas City, Missouri, roughly the Kansas City, MO-KS Combined Statistical Area and includes companies either headquartered in or with a significant percentage of operations in the Kansas City region.

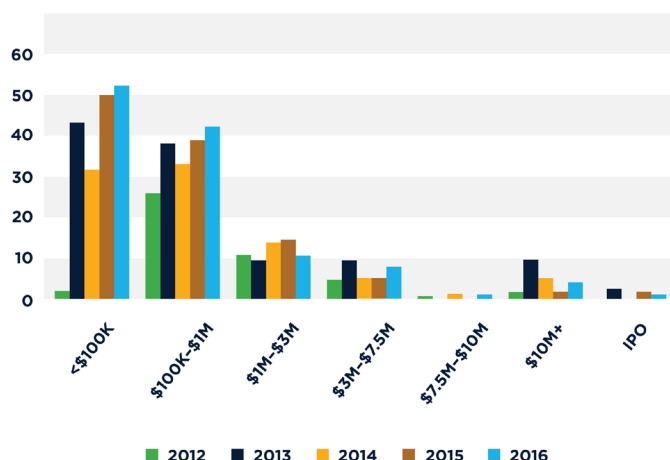
HISTORICAL PERSPECTIVE

NUMBER OF KC DEALS BY VALUE BY YEAR, 2012-2016

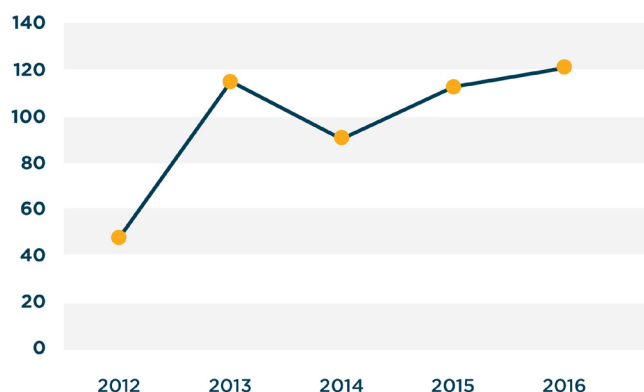
The number of grants and investments in Kansas City area firms jumped between 2012 and 2013, and has been fairly stable since then. The increase has been due in large part to an increase in funding at the <\$100,000 level. In 2012 there were only two investments at that level. In 2013, the number increased to 43, marking the entrance of Digital Sandbox KC (a proof-of-concept grant program) into the market. LaunchKC, another early-stage grant program sponsored by the EDC of KCMO which began in 2015, has also contributed to the number of deals at that level.

The other funding levels have been relatively stable, although in some years Kansas City has seen no IPOs (2014 and 2012) and no investments in the \$7.5 million to \$10 million range (2015 and 2013.)

NUMBER OF DEALS BY VALUE, BY YEAR, 2012-2016



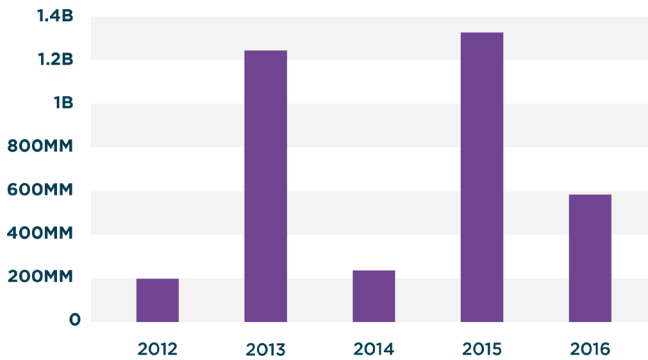
NUMBER OF DEALS 2012-2016



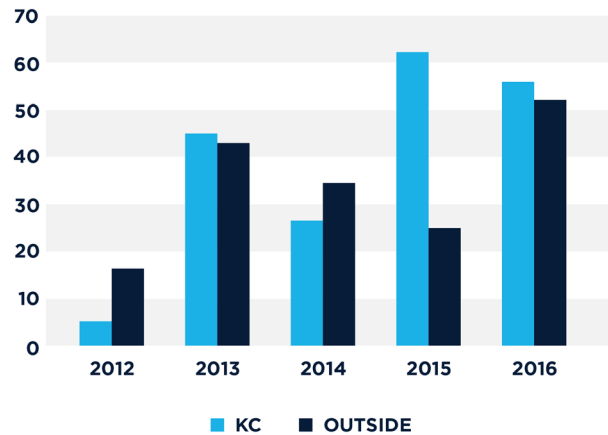
DOLLAR AMOUNT OF KC DEALS BY VALUE, BY YEAR, 2012-2016

The dollar value of grants and investments in Kansas City area companies has varied significantly from 2012 to 2016. Part of this can be accounted for by the lack of IPOs in 2012 and 2014. In 2016, the value of investments was down, although the number of firms gaining investments was not significantly lower. If IPOs and investments of more than \$10 million are removed, the rate of investment is fairly consistent, averaging \$67 million per year; 2016 was higher for that range of investments at \$74 million.

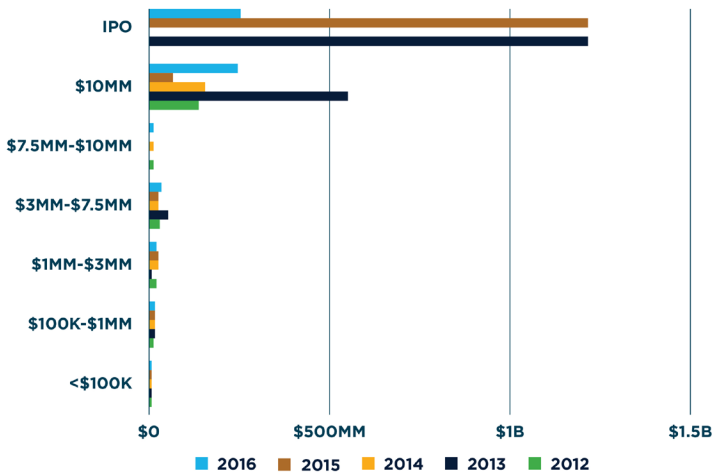
DOLLAR AMOUNT OF DEALS 2012-2016



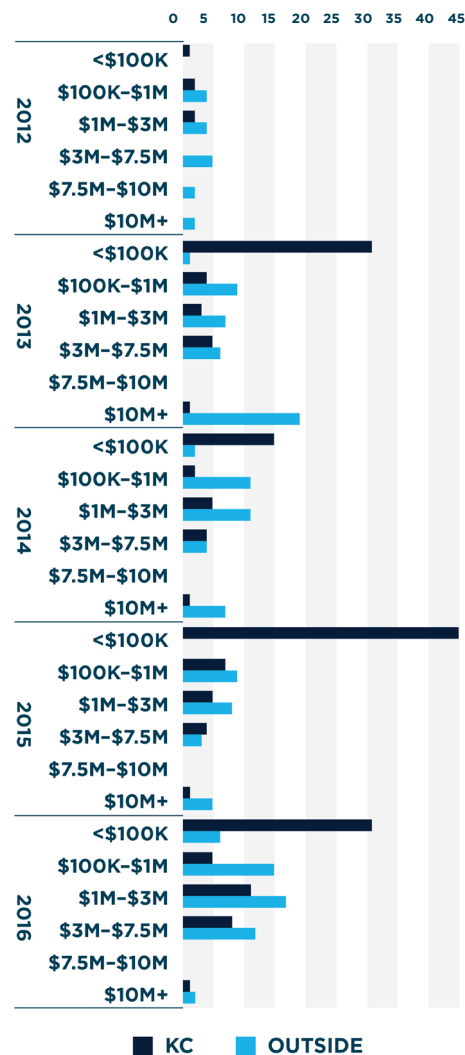
NUMBER OF INVESTORS BY LOCATION 2012-2016



DOLLAR AMOUNT OF DEALS BY VALUE 2012-2016



NUMBER OF INVESTORS BY LOCATION, BY VALUE, 2012-2016



SOURCES OF FUNDS, 2012-2016

In Kansas City, most preseed investors came from the Kansas City area. In the last two years, the number of investors from the Kansas City area has increased, and outpaced investors from outside Kansas City at the later stages as well. (This includes investments at all levels where investors are disclosed. Also, some investments feature multiple investors, so the number of investors does not match the number of deals in any given year.) Nebraska investors used to feature prominently in the local investment scene, outpacing investments from other parts of Missouri and Kansas in 2012, 2013 and 2014. In 2015 and 2016, there were only three investments from Nebraska sources.

²¹ Data not available for 2012

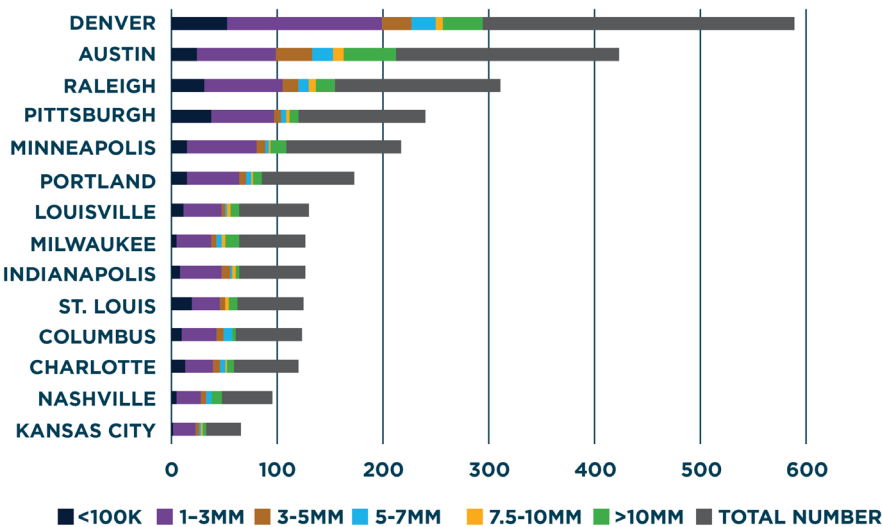
PEER CITY COMPARISON, 2016

Compared to other peer cities, Kansas City ranked last in terms of total equity investments in 2016. This suggests that Kansas City still has a long way to go in

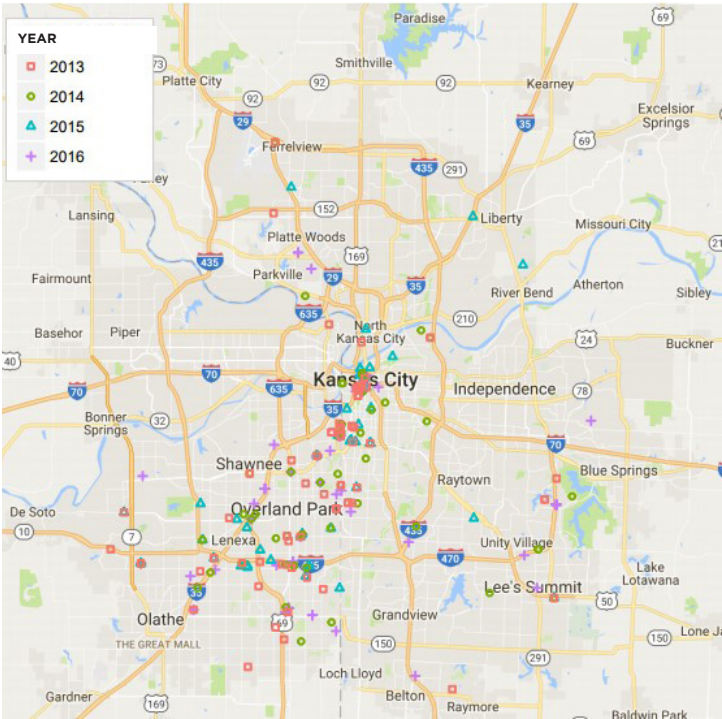
terms of increasing access to capital for early-stage companies. (Note: this chart compares only investments captured by CBInsights; actual total investments in Kansas City are higher as investments are taken from various public and private sources.)

PEER CITIES NUMBER OF DEALS BY SIZE, 2016

(CBInsights)



GEOGRAPHIC LOCATION OF INVESTMENTS 2012–2016²¹



²¹ Data not available for 2012

WHO IS FUNDING WHAT IN KANSAS CITY 2012-2016

< \$100,000	\$100,000-\$1MM	\$1MM-\$3MM	\$3MM-\$7.5MM	\$7.5MM-\$10MM	\$10MM+
1 in a Million 4D Global Energy Advisors 500 Startups Allen Angel Capital Citi Ventures Contest-SXSW Cox Communications Crowdfunder Digital Sandbox KC Dundee Venture Capital KCRise Launch KC Lean Lab	SeedStep Angels Bernstein-Rein Byron Clymer Crowdfunder Diane Sonnenstein Dundee Venture Capital Google Gravity Ventures Great Range Capital Hudson Bay Capital Management Jon Bentz Kea Ventures Mid-America Angels Missouri Technology Corporation National Institutes of Health Foundation Grant National Science Foundation Nelnet NetWork Kansas Northland Investor Angel Network OpenAir Equity Partners Prime Health Care Women's Capital Connection	Alliance Healthcare Partners Andreessen Horowitz Andy O'Hara Anterra Capital Artists & Instigators BlackPine Private Equity Partners Bob Trahan Bridge Chicago Ventures Dan Carroll DAN Fund LLC Dan Henry Dundee Venture Capital FCA Venture Partners Fishtech Labs Flyover Capital FTL Capital Partners LLC Gravity Ventures Jeffrey Brown John Fohr Kansas Bioscience Authority KC Rise Fund Linseed Capital Matt Watson McCombs Partners Mid-America Angels Mithril Capital Management Nebraska Angels Nelnet Network Kansas Multiplier Fund Nova Partners OpenAir Equity Partners Pat LaFrieda Sam Yagan SBIR Serious Change Fund Sigma Capital Group Sinopoly Battery Spotlight Ventures Summerhill Venture Partners Women's Capital Connection	Alven Capital Partners Advantage Capital Partners Anterra Capital Archer Capital Brandmeyer Enterprises, LLC Commerce Ventures DST Systems Dundee Venture Capital Elysian Park Ventures Five Elms Capital Flyover Capital Gary Fish Grayhawk Capital GreyCrest Partners Hyde Park Venture Partners JE Dunn Lance Melber Mainsail Partners Mid-America Angels Missouri Technology Corporation Nebraska Angels Nelnet National Institutes of Health Open Prairie Ventures Optimas Group Peter Brown QED Investors Qihoo 360 Technology R/GA Royal Street Ventures Sprint Nextel Think Big Partners TIFEC (Illig Family Enterprises) UMB Ward Ventures Weatherford Partners Wells Fargo Startup Accelerator Women's Capital Connection	Don Waisworth Dundee Venture Capital Govtech Fund John Rose Mithril Capital Management OpenAir Equity Partners Summerhill Venture Partners Thorndale Farm LLC Union Square Ventures	Avalon Ventures, LLC Avenue Special Opportunities Fund I, L.P. BS Freeman Capital, LLC Continental Casualty Company, Investment Arm Cultivian Ventures, LLC Deutsche International Corporate Services IR Gridiron Capital, LLC Main Street Capital Corporation Mainsail Partners Mithril Capital Management MPM Capital OpenAir Equity Partners Potomac Asset Management Co. Inc. SEV Group Limited Skyview Capital LLC The Sterling Group Wanxiang Group Corporation

2016 Grant and Equity Funding

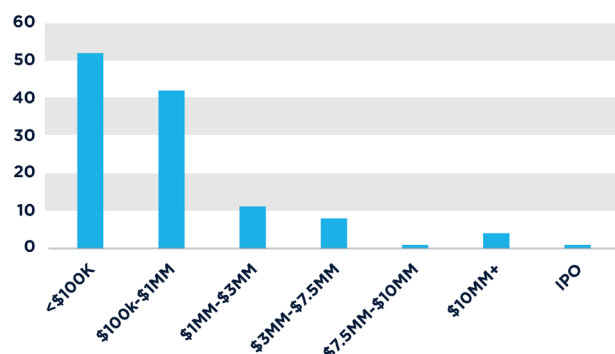
Based on public sources, Kansas City area businesses received \$214,812,330 in grant and equity funding in 2016. In addition, two firms were awarded SBIR grants totaling \$3,025,000 during the same time frame.²²

The number of investors from Kansas City has increased since 2012. In 2016, the total was 56, with only 52 investors noted from outside Kansas City. The number of investors from other parts of Kansas and Missouri continues to increase.

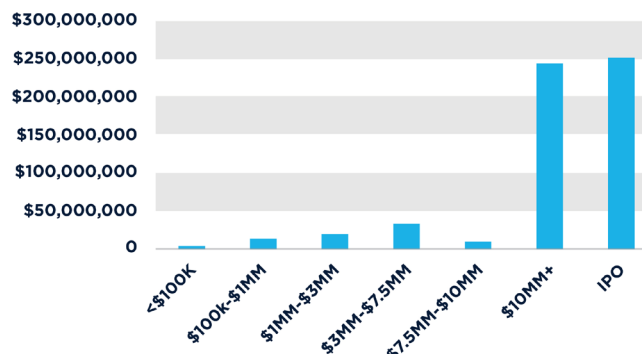
2016 KANSAS CITY REGION GRANT AND EQUITY FUNDING

	<\$100K	\$100K-\$1MM	\$1MM-\$3MM	\$3MM-\$7.5MM	\$7.5MM-\$10MM	\$10MM+	IPO
DEALS	52	42	11	8	1	4	1
TOTAL AMOUNT	\$1,860,548	\$12,637,864	\$18,590,000	\$32,000,000	\$9,060,000	\$244,490,000	\$252,700,000
AVERAGE	\$35,780	\$300,902	\$300,902	\$4,000,000	\$9,060,000	\$61,122,500	\$252,700,000

NUMBER OF KC DEALS, 2016



VALUE OF KC DEALS, 2016



2016 SOURCES OF FUNDS

FUNDING	KC AREA	MO/KS	NEBRASKA	OUTSIDE REGION	TOTAL
<\$100K	31	1	1	4	37
\$100K-\$1MM	5	3		12	20
\$1MM-\$3MM	11	2		15	28
\$3MM-\$7.5MM	8	2		10	20
\$7.5MM-\$10MM					
\$10MM+	1			2	3

2016, Compiled from various public sources; number of investors does not equal number of investments as some deals have multiple investors and some deals have undisclosed investors.

²²Public sources include: CB Insights, Who Got Funded, KC Business Journal, Silicon Prairie New, PRNewswire, Digital Sandbox KC, Missouri Technology Corporation, SBIR, company websites, TechCrunch

DIGITAL SANDBOX PROOF-OF-CONCEPT CENTER

The advent of Digital Sandbox KC into the Kansas City market in 2013 marked a dramatic shift in sources of funds for proving concepts.

Digital Sandbox KC 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. In 2013 and 2014, the Sandbox provided funds to 37 new concepts. In addition to funding, the Sandbox links companies to a variety of resources to help with business development and follow-on funding.

ACCELERATORS

Five years ago, the word “accelerator” was unknown in the Kansas City entrepreneurship space. Today, there are five accelerator programs active in the metro.

▶ 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 equity is provided to the companies.

▶ **BetaBlox** provides free mentoring services, boot camp and office space in return for a small equity stake in startup ventures. No money exchanges hands.

▶ **TechStars** chose to remain in Kansas City following its separation with the Sprint Accelerator. The new program launched in spring 2017.

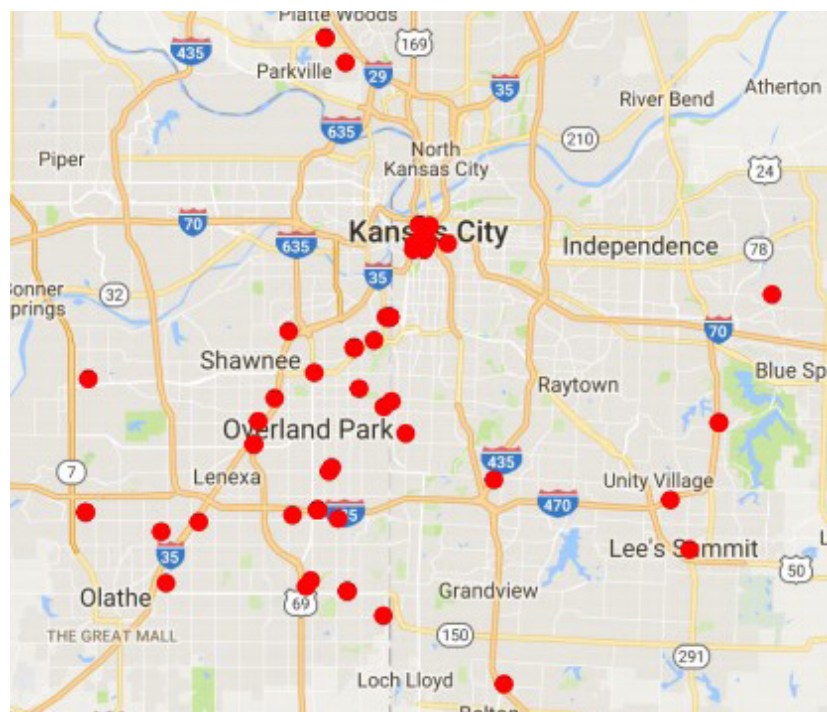
▶ **Lean Lab** is a Kansas City-based community that launches transformational education innovations with both for-profit and not-for-profit organizations.

CROWDFUNDING

Indiegogo and KickStarter are two of the oldest and largest reward-based crowdfunding sites. In 2016, three companies completed successful Kickstarter campaigns: VWallet, Pawns and Pints, and Lume Lifestyle. Beer Paws completed a successful Indiegogo campaign in 2015, as did COPR Security and Fitness Isn’t Free.

These campaigns all followed the old model of incentives for investment. The new equity-based crowdfunding model does not appear to be a funding method of choice for Kansas City area entrepreneurs.

2016 FUNDED COMPANY LOCATIONS, <\$100,000

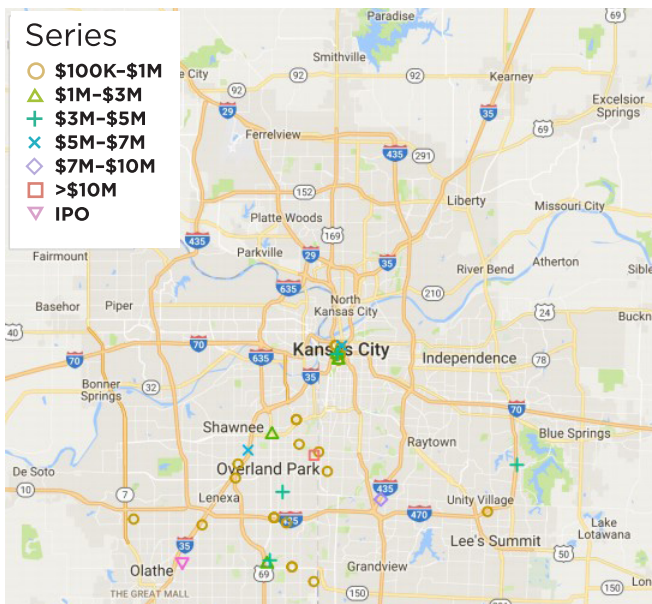


ANGEL INVESTING

In Kansas City, many angels work together in networks, most prominently Mid-America Angels and Women's Capital Connection. In 2014, the Northland Angel Investor Network was launched, and has made four investments for a total of \$850,000.

In three years, angel investments have doubled, moving from \$1.4 million in 2012 to \$2.8 million in 2015. In 2016, the amount of investment rose to \$3.6 million in 15 deals. The number of angel investors in these groups has also increased, from 140 to 200. Some of this is due to new angels joining existing groups; some to the emergence of NAIN and MAA chapters in St. Joseph, Missouri, and Manhattan, Kansas.

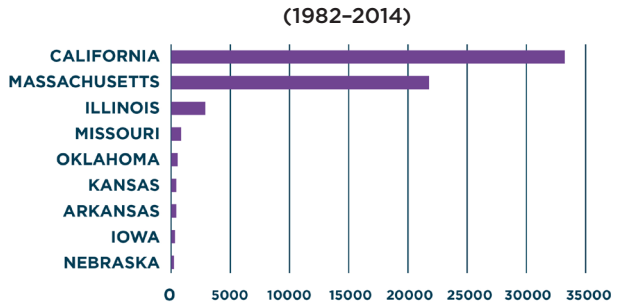
2016 FUNDED COMPANY LOCATIONS, >\$100,000



SMALL BUSINESS INNOVATION RESEARCH (SBIR) GRANTS

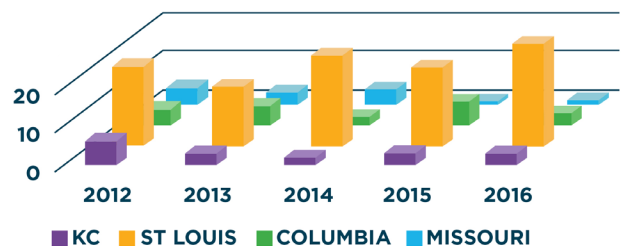
Missouri and Kansas generally do not take full advantage of SBIR funding. Missouri ranks 28 and Kansas 36 in the number of SBIR grants received since 1982. California ranks first with 33,216 awards and Massachusetts second with 21,681. Since 1982 when the program was established, Missouri has been awarded 882 SBIR grants and Kansas 465.

NUMBER OF SBIR GRANTS, SELECT STATES

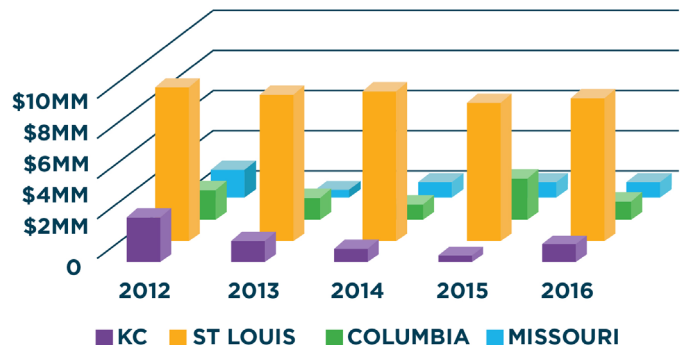


Kansas City lags behind other Missouri regions in garnering SBIR/STTR grants. Communities with strong research institutions tend to compete more effectively for these grants and that holds true for Missouri. St. Louis (the home of Washington University) leads the state in SBIR funding, with Columbia and Rolla accounting for the bulk of the remaining grants. Over the past five years, the Kansas City region earned 17 SBIR grants, compared to 104 for companies in the St. Louis area and 33 in other parts of the state. In terms of the total value of the grants, the Kansas City metro also lags behind other areas of the state. From 2012-2016, Kansas City area firms netted \$6,348,037 in SBIR/STTR grants, compared to \$45,932,984 for the St. Louis area and \$7,617,821 for Columbia.

NUMBER OF MISSOURI SBIR/STTR GRANTS, 2012-2016

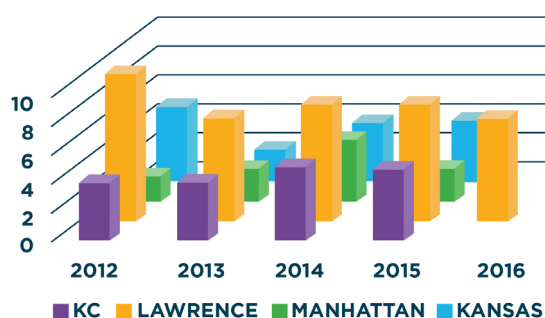


DOLLAR AMOUNT OF MISSOURI SBIR/STTR GRANTS, 2012-2016

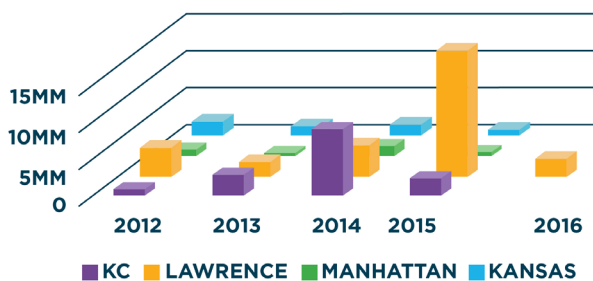


The Kansas portion of the metro area fares better compared to the state as a whole, but well below Lawrence. Over the past five years, companies on the Kansas side of the Kansas City metro area received 18 SBIR grants, compared to 10 from Manhattan and 40 from Lawrence. Total value of grants reflects the same proportions: Kansas City areas companies received \$15,125,638 in grants over the five-year period compared to \$29,027,646 for Lawrence firms.

**NUMBER OF KANSAS SBIR/
STTR GRANTS, 2012-2016**



**DOLLAR AMOUNT OF KANSAS
SBIR/STTR GRANTS, 2012-2016**



InnovaPrep in Drexel regularly wins SBIR grants, as do Orbis Biosciences, QM Power, Flow Forward Medical and Metactive Medical.

VENTURE CAPITAL FIRMS

The region has traditionally lacked early-stage venture capital firms. When KCSOURCELINK started tracking the amount of identified, available capital for early-stage entrepreneurs in 2013, the amount was \$193 million. By 2016, KCSOURCELINK was able to identify \$752 million in identified, available capital, including grants programs, angel groups, KC-based funds and firms based outside Kansas City that have publicly stated they are “open for business” from KC area companies. This amount does not include family funds that are typically kept private and outside the area venture capital funds. These funds may invest in local deals but do not specifically target KC companies only.

This improving picture for early-stage investment was driven largely by the community in response to the data and recommendations presented in KCSOURCELINK’s first *We Create Capital* report, released in 2015. Notable changes in the landscape:

- ▶ Flyover Capital made its first KC investments
- ▶ KCRise Fund established
- ▶ Firebrand Ventures opens
- ▶ iiM declares focus areas: agriculture, animal and human health
- ▶ Leawood Ventures established

Kansas City has been home to a number of later-stage investment funds for many years. Recently more early-stage funds have been established. Descriptions of all KC-based funds are found on pages 44 and 45, broken out by those who fund earlier stages vs. those who fund later in a company’s lifespan.

KC-BASED, EARLY-STAGE

FIRM YEAR FIRST INVESTMENT	INVESTING PROFILE	TOTAL DEALS	KC AREA	AVERAGE DEAL SIZE
Eldar Capital 2012	Eldar Capital is a private equity and investment firm whose investments range from \$250K to more than \$10 million. The firm engages in investments in of advanced cybersecurity, healthcare IT, resource mining, fintech, communications and digital media, Internet of things, next generation mobile applications, etc.	3	0	\$750K
Firebrand Ventures 2016	Firebrand Ventures is a venture fund combining a strong brand, vast network, and deep experience with startup hustle to invest in exceptional early-stage software startups.	2	1	\$2.8MM
Flyover Capital 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	4	\$2.85MM
iiM N/A	iiM targets agriculture, animal health and human health companies, investing \$50,000 to \$300,000 in qualified companies.	N/A	N/A	N/A
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, and be seeking at least \$1 million and have an approved venture capital firm investor.	5	5	\$5MM
Leawood Ventures 2017	Leawood Ventures provides investors with unique and scalable access to diversified private venture equity and mezzanine debt opportunities identified, evaluated and actively managed by an experienced team of entrepreneurs and investors who leverage technical and operational expertise to maximize returns.	2	1	\$5MM
Royal Street Ventures 2012	Royal Street Ventures 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.	25	2	\$2MM-3MM
Stray Dog Capital 2016	Stray Dog Capital is a mission-driven venture capital firm that drives alternatives to the use of animals in the supply chain through investments, expertise and support.	2	0	\$4.5MM
UMB Capital Corporation 1984	UMB Capital Corp is a venture capital fund that operates as a licensed SBIC. The firm purchases no more than 49 percent of the company's stock and provides additional funds in the form of working capital loans, capital purchase loans or real estate loans. These loans are usually convertible to stock.	N/A	N/A	\$500K

***N/A = Not Available**

KC-BASED, LATER STAGE

FIRM YEAR FIRST INVESTMENT	INVESTING PROFILE	TOTAL DEALS	KC AREA	AVERAGE DEAL SIZE
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.	3	0	N/A
C3 Capital Partners 2004	C3 Capital Partners focuses in chemicals, energy, business services, distribution and high valued-added manufacturing. Provides subordinated debt. Is a licensed SBIC.	7	1	\$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.	7	3	\$6.38MM
Great Range Capital 2011	Great Range Capital targets investments in business and industrial services, healthcare services/devices, retail and consumer, established media and niche manufacturing companies.	3	1	N/A
Konza Valley Capital (Formerly Kansas Venture Capital, Inc) 1977	Konza Valley Capital is a licensed SBIC that provides private equity capital to manufacturing, service, distribution, retail and technology related companies with \$10MM-\$100MM in revenue.	24	6	\$10MM
Mid States Capital, Lp 2000	MidStates Capital provides equity and mezzanine capital to companies with revenues between \$10MM-\$100MM where the business valuations range from \$5MM-\$50MM. The fund seeks to invest in and/or acquire privately held companies and divisions or subsidiaries of large corporations with meaningful market share, brand, or product uniqueness and growth opportunities. Licensed SBIC.	38	6	N/A
Nueterra Capital 2015	Nueterra Capital is a private equity investment and advisory firm with an exclusive focus on healthcare.	2	1	N/A
OpenAir Equity 2016	OpenAir Equity Partners is a venture capital and private equity firm solely focused on the wireless, communications and mobile Internet sectors.	17	11	\$12.82MM
Open Prairie Ventures 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.	39	3	\$30MM
TGP Capital Partners 1999	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.	9	5	\$3-10MM
Tradebot Ventures 1999	Seeking opportunities that strategically align with current business and investments.	N/A	N/A	N/A

In addition, a number of regional venture capital funds have indicated a significant interest in Kansas City-area companies.

REGIONAL VENTURE CAPITAL FUNDS INTERESTED IN KC-AREA

FIRM YEAR FIRST INVESTMENT	INVESTING PROFILE	TOTAL DEALS	KC AREA	AVERAGE DEAL SIZE
Drive Capital 2013	Drive Capital is a venture capital firm investing in technology, healthcare and consumer companies in the Midwest. The firm partners with innovative entrepreneurs addressing global market opportunities.	26	0	N/A
Dundee Capital 2010	Dundee Venture Capital is an Omaha, Nebraska venture fund and invests in e-commerce and software companies.	32	10	\$2MM
Invest America Venture Group 1998	InvestAmerica is a national private equity/venture capital investment management group headquartered in Cedar Rapids, Iowa, with regional offices in Kansas City. The fund invests in manufacturing, service, distribution and technology companies with sales between \$10MM-\$50MM.	19	2	\$1MM-2MM
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.	16	0	\$3.4MM
Lewis & Clark Ventures 1916	Lewis & Clark Ventures is an early-stage high-growth venture capital firm based in St. Louis, Missouri. The firm plans to invest in high-growth companies from \$3 million to \$7 million.	7	0	\$9MM
NewRoad Capital Partners 2014	NewRoad Ventures has extensive experience in deal structuring and business consulting for early-stage and middle-market companies as well as Fortune 500 corporation.	4	N/A	N/A
Novation Companies 2012	Novation Companies owns and operates early-stage businesses in the technology-enabled services industry.	2	0	\$30MM
Prairie Crest Capital 2016	Prairie Crest Capital is a Midwest based venture capital firm focused on early stage investments in promising, transformational agriculture and technology innovation.	N/A	N/A	N/A
Router Ventures 2016	Router Ventures is a true collaborative force that leverages authentic, strategic relationships to advance driven founders and their audacious goals beyond their communities.	1	0	N/A
Service Provider Capital 2015	Service Provider Capital is a small venture capital fund whose limited partners include the most knowledgeable, respected and best connected service providers in the Rocky Mountain Region. The fund focuses on making small co-investments in institutionally led Series A deals.	12	0	N/A

State Incentives

KANSAS 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. The Kansas Angel Investor Tax Credit Act is administered by the Kansas Department of Commerce with the primary goal of encouraging individuals to provide seed-capital financing for emerging Kansas businesses engaged in the development, implementation and commercialization of innovative technologies, products and services.

The program is credited with generating \$255.8 million in revenue and adding or saving 1,383 jobs over the nine years since inception. In 2014, 47 companies used \$6.1 million in angel tax credits; 36 of those companies were in the Kansas City metro area.²³

There is a strong correlation between companies receiving angel tax credits and also receiving funding from Mid-America Angels and Women's Capital Connection.

KANSAS CAPITAL MULTIPLIER VENTURE FUND

Under the Kansas Capital Multiplier Venture Fund, businesses can apply for a matching investment up to 9 percent of private equity invested. Private equity includes funds invested by private equity firms and angel investors. Businesses eligible include technology and bioscience companies working with a state entrepreneurial center, or a University Center of Excellence. Rural businesses or businesses in distressed areas of urban communities that meet critical community needs, are growth businesses with local angel investors, or are larger businesses with fewer than 500 employees that have local angel investors and significant private equity investment may also qualify. The minimum equity investment contribution from the Kansas Capital Multi-

plier Venture Fund is \$25,000, with a maximum equity investment contribution of \$250,000.

Since 2012, 16 companies in the Kansas City metro area were funded by the Multiplier Venture Fund for a total of \$2,160,713.²⁴ Most of these funds have been deployed, and additional funds will not be available until an invested company has an exit.

MISSOURI TECHNOLOGY CORPORATION

The Missouri Technology Corporation uses the IDEA Fund to promote the formation and growth of businesses that engage in the transfer of science and technology into job creation. Capital is available in four categories on a competitive application basis:

▶ TechLaunch, for commercializing research and launching new high-tech companies. This preseed investment is for companies that have not exceeded debt and equity financing of \$250,000.

▶ Seed Capital Co-Investment, accelerates private investment in Missouri-based startup companies and increases the overall investment impact of third-party investment. This seed investment is for companies that generally have not exceeded debt and equity financing of \$1,500,000.

▶ Venture Capital Co-Investment, helps companies grow, add new employees and penetrate the marketplace.

▶ High-Tech Industrial Expansion, promotes MTC's vision of transforming Missouri through the power of entrepreneurship and technology-based innovation.

In the Kansas City area, during the last five years, eight companies were funded by the MTC IDEA Fund for a total investment of \$2,600,000.²⁵ Due to recent cuts in the MTC budget, it is unlikely that these funds will be available into 2018 and beyond.

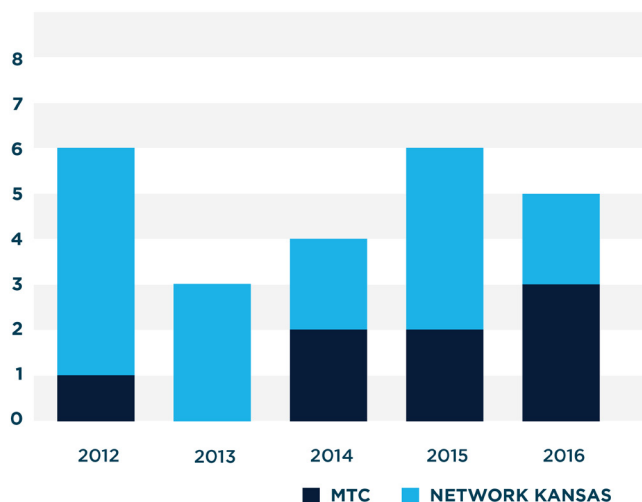
²³ Kansas Department of Commerce, 2014 Angel Tax Credit Annual Report

²⁴ Source: NetWork Kansas

²⁵ Source: Missouri Technology Corporation

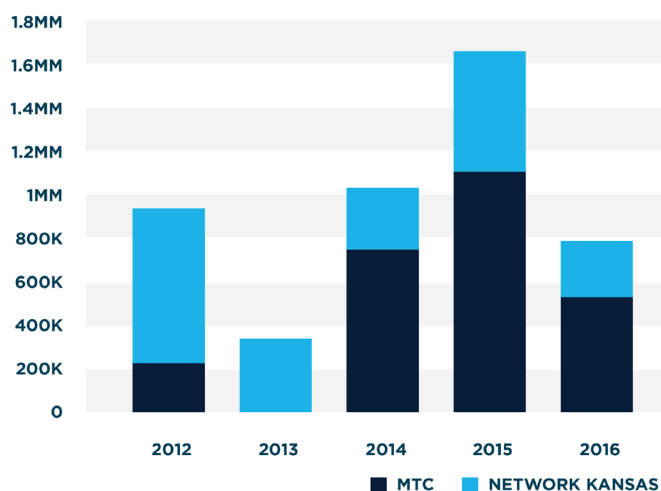
NUMBER OF INVESTMENTS IN KANSAS CITY AREA FIRMS

Funded by MTC and NetWork Kansas Multiplier Fund



VALUE OF INVESTMENTS IN KANSAS CITY AREA FIRMS

Funded by MTC and NetWork Kansas Multiplier Fund



How to Access R&D and Equity Funding in Kansas City

DEALMAKERS AND GATEKEEPERS

The reach of an entrepreneur's social network in Kansas City 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 revealed that 90 percent of the companies met their investors through a community member or network. About 5 percent found investors through an accelerator or incubator program and fewer than 3 percent were connected through a matchmaking platform.

KANSAS CITY'S DEALMAKER NETWORK

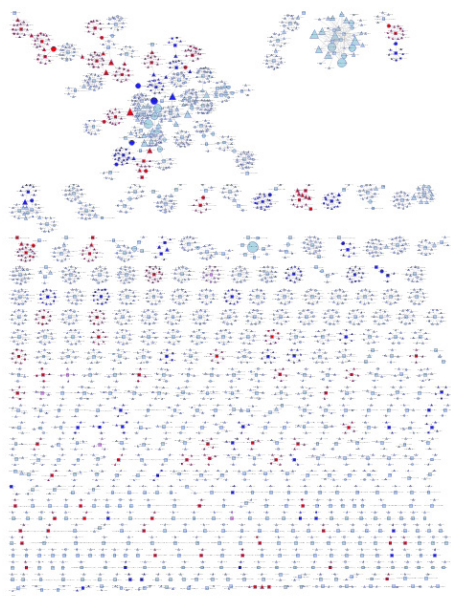
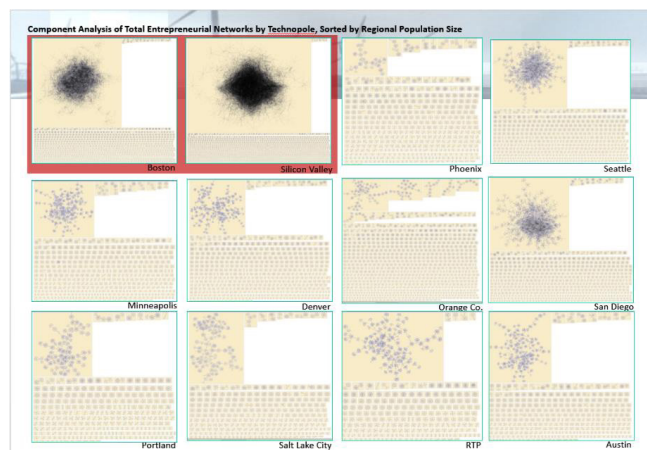
Research by Maryann Feldman and Ted Zoller of the University of North Carolina identifies dealmakers as people who "assume roles that make the connections from which knowledge spills over to lower the costs of engaging in innovative activity, thus creating regional vibrancy."²⁷ Their report suggests that the concentration of individuals engaged in multiple entrepreneurial activities is a key indicator of the strength of an entrepreneurial ecosystem. "The vibrancy of regional economics and the degrees of entrepreneurial activity is certainly affected by the anatomy of local social capital."

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. He tested the general cohesiveness of regional life sciences and technology networks, looking at investor, entrepreneur and board connections between companies. In Kansas City, the investor/entrepreneur network is much more fragmented than San Diego, Seattle, Boston and Silicon Valley but looks

²⁶Midwest Technology Company Seed Finance Survey, 2015

²⁷Maryann Feldman and Ted Zoller, Dealmakers in Place: Social Capital Connections in Regional Entrepreneurial Economies (Regional Studies, Vol. 46.1, pp. 23-37, January 2012)

similar to a number of other cities including Denver and Minneapolis, as evidenced in the following charts.



Working with company, investment and board information from Capital IQ Zoller identified 42 “dealmakers” with four or more ties in the region.

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 was almost identical: 41.

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. It is difficult to track who is investing with whom in multiple deals.

Another way to measure connectivity would be to determine the number of investors who are participating in the entrepreneurial infrastructure. This would include those involved in angel investment groups, those invested in early-stage funds, those engaged as mentors in key accelerator programs and those who attend “investor connector” events.

These investor connector events were conceived as a way to increase the dealmaker network in the Kansas City metro area. Events have included private dinners, lunches, networking events with entrepreneurs and educational sessions. Original partners included KCSOURCELink, the Kauffman Foundation and the Greater Kansas City Chamber of Commerce. Over the course of three years, some 350 people attended these events.

More recently, KCInvestED was formed with a goal of connecting area investors with resources, events and tools to learn more about investing in early-stage companies. So far, KCInvestED has engaged more than 100 investors, potential investors and entrepreneurs in small group discussions.

The Alternate Investment Forum (AIF) has also begun hosting events to pull together investors. These invitation-only events target high net worth individuals who may be interested in exploring early-stage investments. AIF partnered with KCSOURCELink to complete two surveys with investors and potential investors. One looked at why investors do not invest in early-stage deals and, because the inability to conduct due diligence was ranked high as a barrier to investing, the other survey explored the topic of due diligence.

ACCESSING THE CAPITAL NETWORK

A fragmented capital infrastructure makes raising capital difficult.

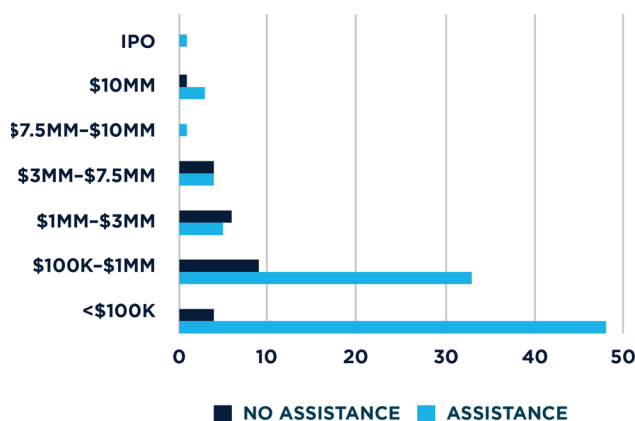
In Kansas City, specific entrepreneurial resources have developed to make the process less mysterious and more manageable. Often referred to as “gatekeepers,” these seasoned business development professionals understand who are the investors, what they seek at each level, how to evaluate an entrepreneur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

The list of gatekeepers includes Digital Sandbox KC, KCSOURCELINK, UMKC Small Business and Technology Development Center, Enterprise Center of Johnson County, Mid-America Angels, Women’s Capital Connection, and Pipeline. Accelerators and incubators like Think Big Partners, Sprint Accelerator, BetaBlox, TechStars and LaunchKC also create critical connections in this area. In the past few years, awareness of these organizations and their role in equity financing has increased, resulting in better connections for those seeking financing.

The venture capital funds themselves are also more connected than in the past, with more collaboration on investments.

About 80 percent of companies who raised funding in 2016 received assistance from programs like these. At the pre-seed stage (less than \$100,000 raised) the percentage that received assistance was even higher: 92 percent.

FUNDED COMPANIES THAT RECEIVED ASSISTANCE, 2016



EVENTS AND PROGRAMS THAT CONNECT INVESTORS AND ENTREPRENEURS

Investors and entrepreneurs can connect informally through trusted referrals and formally through a number of programs in Kansas City.

DEMO DAYS/SHOWCASES

Local accelerators and mentoring programs commonly end with a “demo day” that brings together entrepreneurs and investors to showcase graduating companies. ScaleUP! Kansas City, LaunchKC, Pipeline, TechStars, BetaBlox and Lean Lab offer these sessions. The city of Kansas City, Missouri, holds an event at the end of its Innovation Partnership Program. Verge began hosting Pitch Nights in 2017 and in May the new WeWork Corrigan Stations hosted the Creator Awards Pitch Practice. KCSOURCELINK started organizing Innovation Snapshots in 2016, opportunities for entrepreneurs to showcase their companies for corporate and community audiences.

INVESTMENT FORUMS

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.

CLASSES

Local organizations provide a range of classes and events focused on helping business owners prepare to access capital. Examples are listed below:

- ▶ Winning Federal Research Grants
- ▶ Know Your Ask: Raising Capital
- ▶ Financial Projections

- ▶ Pitch Night
- ▶ Pitching to Investors
- ▶ Closing the Deal: Negotiating Your Term Sheet
- ▶ Valuation of an Early-Stage Business
- ▶ Angel Investment
- ▶ Funding a Scalable Startup in Kansas City
- ▶ Reading Term Sheets and Structuring a Deal
- ▶ Raising a Round of Funding: Where and How to Start
- ▶ The ABCs of Angel Investment

RECOMMENDATIONS TO INCREASE ACCESS TO GRANT AND EQUITY CAPITAL IN THE KC REGION

Increase Debt Funding:

Recommendation 1: *Fully fund the microlending infrastructure and increase the amount of microloans to \$5 million by 2020*

The KC Microloan Coalition has been working collaboratively to rebuild Kansas City's microlending infrastructure, beginning in 2009 when Kansas City's then only microlending fund closed its doors. An active group of resource organizations worked to bring St. Louis-based Justine PETERSEN to the market. Justine PETERSEN made its first loans in Kansas City in 2012.

Soon after, AltCap and OneKC for Women (through its Women's Business Center) began to establish their own expertise in microlending. The WBC launched WE-Lend and AltCap started a loan fund to support artists and women/minority contractors. The Hispanic Economic Development Corp. joined the Coalition with its Impacto Loan Fund. Recently, AltCap was approved for an SBA-backed microloan fund.

Despite this progress, there are still challenges ahead. Justine PETERSEN, the most active microlender, has become limited in its capital pool. AltCap is building its capacity to begin deploying SBA funds. WE-Lend and Impacto have limited funds to disburse. As not-for-profits, all of these programs need continuing community support for administration, marketing and technical

assistance. While the Coalition is exploring unique methods for tapping into bank CRA credits to support these programs, the need for other support will remain.

The Kansas City community should make a concerted effort to invest in the microlending infrastructure by using philanthropic dollars to match federal capital pools and fund administrative costs.

Increase Grant Funding

Recommendation 2: *Secure funding for Digital Sandbox KC and LaunchKC at the current levels of \$600,000 and \$500,000 per year, respectively.*

Digital Sandbox KC has proven that it can stimulate new business creation and position those companies successfully for follow-on funding and future growth. Since inception, Digital Sandbox KC has funded 85 proof-of-concept projects that have resulted in 34 new KC-based companies, 480 new jobs and \$38 million in follow-on funding. Federal and state funding, which provided foundational support, will likely not be available in the future. Individual communities have stepped in with funding for Olathe, Independence and St. Joseph. GXP Investments is funding the Energy Sandbox. Other communities and corporations will be critical to the continuation and expansion of this successful program.

LaunchKC has also been the beneficiary of state funding through the Missouri Technology Corporation. The program has awarded \$1 million in cash grants to 20 startup businesses and has helped recruit new firms to the region. Seven of the 20 winners were from outside the region. Corporate support will be needed for sustainability.

Recommendation 3: *Raise awareness of Small Business Innovation Research funding and increase the amount of funding to \$5 million by 2020*

The Kansas City metro area continues to lag in winning SBIR/STTR grants. In 2016, Kansas City firms garnered less than \$2 million in SBIR/STTR grants. The Kansas SBDC at Johnson County Community College, the

UMKC SBTDC and the Enterprise Center in Johnson County offer training and support to applicants.

Although there has been some effort to stimulate awareness, many companies do not know of the opportunities afforded by the SBIR/STTR program. Telling the stories of companies that have been successful in using federal grants to build their businesses could encourage great participation.

Increase Available Seed and Venture Capital

Recommendation 4: *Increase the amount of early-stage investment in Kansas City firms to more than \$20 million by 2020*

Most funding for early-stage companies comes from the local area. 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.

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.

The development of a "toolkit for investors" and information of "how to get funded in KC for entrepreneurs" would provide a focus for education. Many of the materials and training classes already exist; a concerted effort to market to potential investors could increase participation. Resource organizations in the entrepreneurial ecosystem could also distribute information.

Recommendation 5: *Strengthen the connectivity of investors within Kansas City and increase connectivity to investors outside the region, as measured by an increase of 10% in co-invested early-stage deals from 2016 to 2020*

Research by Ted Zoller, professor at the University of North Carolina and Kauffman Foundation Fellow, shows that Kansas City's entrepreneurial nodes are not as connected as in more established entrepreneurial hubs in the country. In Kansas City, entrepreneurs are not connected to investors and investors are not connected to other investors. Ways to improve the efficiency of this market include better connecting investors to enhance deal sharing, encouraging more seed investors to join angel groups and investing in accelerators.

Education for both entrepreneurs and investors can increase the understanding of the types of deals certain investors prefer and their desired stage of investment. The formation of additional angel investor groups, seed funds and venture capital funds that are publicly "open for business" could increase the amount of capital available.

Efforts to increase the connectivity of investors within Kansas City could lead to more co-investing opportunities and/or more referrals within the local investor community. Similarly, when local angel groups and venture capital funds build relationships with similar organizations and funds outside the region, this too can lead to more co-investment and more referrals.

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 6: *Create connections with corporations and first customers so that entrepreneurs can build companies that are attractive to investors*

Corporations are looking for ways to engage with startups and entrepreneurial firms. One of the most

effective engagement strategies is through strategic partnerships that provide sales channels for the early-stage company. First-customer engagements create credibility for the early-stage company, generate cash flow and make the early-stage company more appealing to investors. Well-developed early-stage companies with a strong existing customer base are key to generating investment. Corporations can also provide expertise and industry intelligence.

Digital Sandbox KC and the Sprint Accelerator have been pioneers in corporate engagement with early-stage companies. Building on those experiences and engaging more corporations will benefit entrepreneurs and the entire entrepreneurial ecosystem.

Recommendation 7: *Develop an educational curriculum for board members of early stage companies, targeting experienced business executives from larger, established companies and industries*

Kansas City has a significant population of “retired” corporate executives who want to continue their engagement in the community in a meaningful way. For some, engaging with early-stage companies provides an opportunity to share the experience and expertise they’ve honed through years of corporate work, as well as support the emerging business community that will influence the community’s future.

Building on successful programs such as the Helzberg Entrepreneurial Mentoring Program and the Growth Mentoring Service at the Enterprise Center in Johnson County, this effort would focus on the skill sets needed

to be part of a startup/early stage private board, which is different from large company, public and philanthropic board service.

Recommendation 8: *Make the Kansas City region the finance hub of the Midwest*

The Kansas City community has come together around improving the capital landscape since 2015. The establishment of new angel groups, new KC-based venture funds and the development of a regional network of investors lay the groundwork to position Kansas City as the finance hub of the Midwest. In addition, Kansas City has a history as a financial center. Our geographic location in the heart of the MINK states (Missouri, Iowa, Nebraska and Kansas) and proximity to Arkansas and Oklahoma contribute to Kansas City’s position as a hub.

Strengthen The Capital Landscape

Recommendation 9: *Share success stories and metrics*

Many local companies do raise the capital needed to grow their companies. Telling these stories of success offers a realistic view of the process and the results to both entrepreneurs and investors. Encouraging investors to promote their investments to the local community could also help encourage additional engagement.

Continue to systematically track the yearly levels of investment by size of investment and source of investment. These metrics provide the community with a clear picture of the capital landscape and allow progress (or lack) to be showcased.