

Access to Capital: Arizona Innovation Accelerator Fund

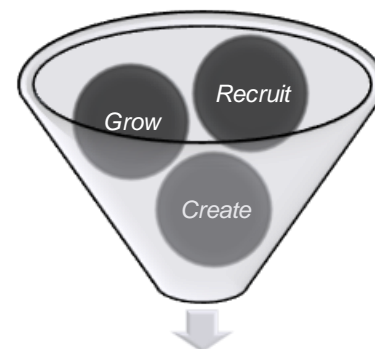


November 2014



What Is the Arizona Commerce Authority (ACA)?

- ❑ The ACA is the state's leading economic development organization
- ❑ Our mission is to strengthen Arizona's economy using a three-pronged approach: **Recruit, Grow, Create**
 1. **Recruit** out-of-state companies to expand their operations in Arizona
 2. Work with existing companies to **Grow** their businesses in Arizona
 3. Partner with entrepreneurs and companies to **Create** new jobs
- ❑ Key Teams within the ACA: Business Attraction, Business Expansion, Business Creation, Workforce, and Small Business Services
- ❑ Targeted Industries: Science & technology, renewable energy & sustainability, manufacturing, aerospace & defense, semiconductors, optics, and bioscience
- ❑ Annually administers numerous state wide incentives including grants, tax incentives & credits, bonds, and loans



Arizona Jobs



Summary of ACA Programs

- ❑ **PIII Playbook** - Training and technical assistance enabling small technology firms to compete for federal SBIR/STTR Phase I and II awards (Bennett Curry)
- ❑ **AZ Fast Grant** - Competitive grant to initiate the tech commercialization process, maximum awards of \$5K and \$20K (Bennett Curry)
- ❑ **AZ Innovation Challenge (AIC)** - Competitive grant program providing \$100K-\$200K in cash assistance to promising technology ventures, \$3MM total each year (Miguel Jardine)
- ❑ **REV AZ** - Manufacturing Extension Partnership (MEP), partnership between the ACA and the National Institute of Technology and Standards (NIST) (Dan Franklin)
- ❑ **State Trade & Export Promotion (STEP) program** - Designed to help small business begin to expand internationally via reimbursable grants up to \$10K (Kevin O 'Shea)
- ❑ **Small Business Services Online Resource Center** - Leads the statewide “go to site” for information on business licensing and statewide resources to help individuals get started and operational in Arizona (Kathy Rodriguez) www.azcommerce.com/smallbiz
- ❑ **Job Training Grants** - Up to \$1.5mm in reimbursable funding per business

What is the Arizona Innovation Accelerator Fund?

❑ Program Basics

- \$18.2MM Loan Participation Program
- Participation up to 49.9%
- Loans range from \$50k up to \$2MM
- Potential to provide subordinated financing
- Potential “Grace Period” which may defer P&I payments for up to 2 yrs
- Interest rate reduction for every net new “quality job” created (up to 2.50%)

❑ General Loan Terms

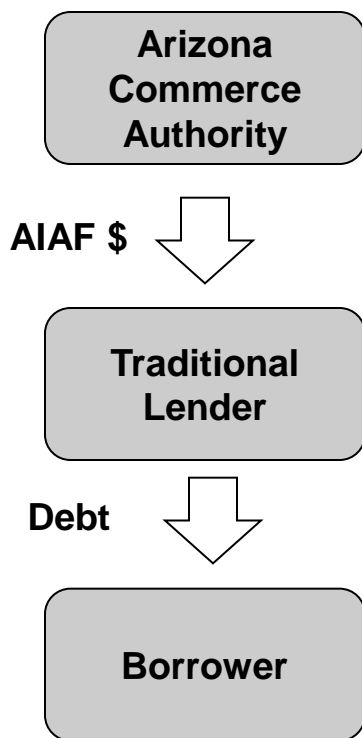
- Maturities typically inside 5 yrs (Revolvers and Term Loans)
- Commitment and annual fees of 1-3% of the participation amount or loan balance
- If pari passu, interest rate is equal to or less than bank
- If subordinated, interest rate is at 100-300bps above the bank’s rate



Paths for Loan Participation...How It Works

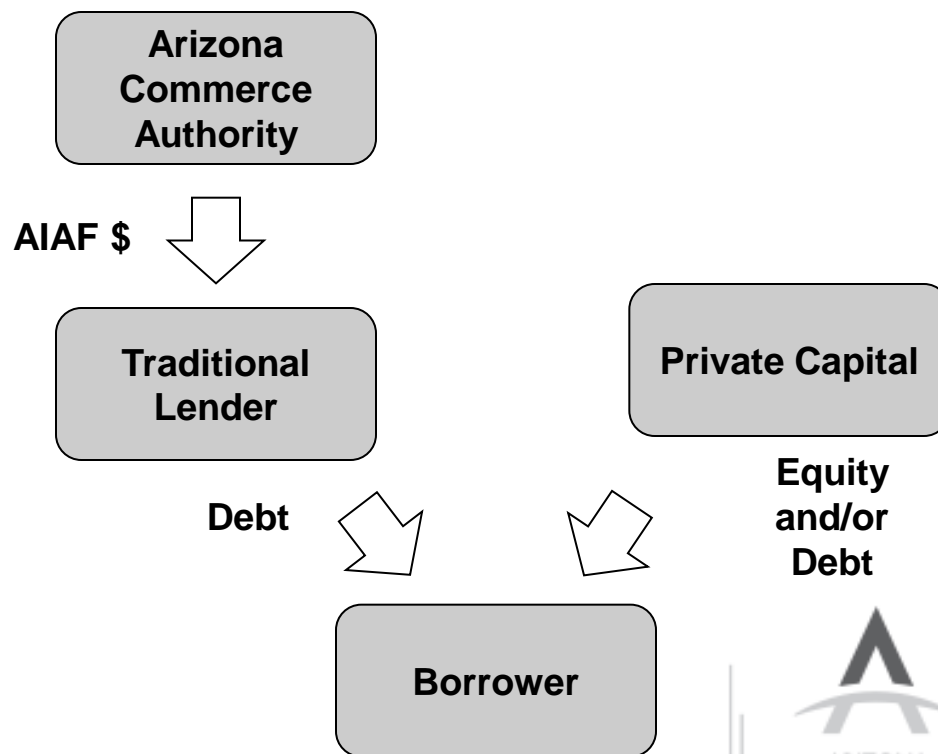
Traditional Lender as Partner

(Bank, Credit Union, CDFI, IDA)



Non-Traditional Lender as Partner

(Angels, PE, VC)



Progress To Date

□ Timeline

- Nov. 2011 - Received the first of three tranches of \$6M
- Feb. 2012 - Launched AIAF program
- July 2012 - First deals close (~\$1M of AIAF deployed, 73 FTEs)
- Sept. 2013 - Received second tranche of \$6M
- Oct. 2014 - 35+ deals closed (~\$11M of AIAF deployed, 1100 FTEs)
- Nov. 2014 – Third tranche of \$6M pending

□ Current Status

- Roughly 20 deals in the pipeline
- Actively partnering with half dozen+ lenders
- Continuing to reach out to new lending and investing partners
- Expanding the program's use in rural Arizona

Composite Mirror Applications

Business: Defense contractor specializing in lightweight optics and optic systems

Goals:
Consolidate debt
Purchase new equipment
Make tenant improvements

Challenges: Aggressive loan to value ratio

Deal Details: \$499,000 term loan (\$249k AIAF/ \$250k Bank)
60 month term loan with 9 month interest only draw period
AIAF subordinated to bank

Results:
2.0x SSBCI Leverage
10 New FTEs (\$24.9k/job)
\$70k Average salary



Dynamic Engineering

Business: Manufacturer, engineer, and developer of precision manufacturing

Goal: Purchase equipment and consolidate debt

Challenges: High loan to value

Deal Details: \$201k Term: (\$100k AIAF/ \$101k bank)
AIAF subordinated to bank
Five year fully amortizing
\$50k RLOC: (100% bank)

Results: 2.5x SSBCI Leverage
16 New FTEs (\$6.25k/job)
\$40k Average salary



HJ3 Technologies

Business: Manufactures carbon fiber technology that can enhance structural support or repair infrastructure; AIC winner

Goal: To purchase equipment and acquire a working capital line of credit for business growth

Challenges: Tangible net worth
Guarantor light

Deal Details: \$750k RLOC: (50% AIAF/ 50% Bank)
\$350k term loan: (100% bank)

Results: 2.9x SSBCI Leverage
60 New FTEs (\$6.3k/job)
\$45k Average salary





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