



Equity Capital

A Component of the MTI Business Innovation Program

Outline and Process Description

Deadline: Requests received on a rolling basis

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OVERVIEW

MTI Business Innovation Program

The MTI Business Innovation Program provides financial and business development support that helps Maine entrepreneurs, businesses, universities and institutions bring new technologies, products, services and processes to the market with financial and technical assistance along the development and company life cycle.

The Program consists of grants and investment that cost share early-stage foundational and planning activity and help Maine leverage external R&D funding such as the Federal Small Business Innovation Research/Small Business Technology Transfer Program and equity capital funding further along the commercialization and growth continuum. Applications are typically competitively reviewed and typically require at least a 1:1 ratio of external funding for every dollar of MTI investment. MTI funding helps leverage the capital required to develop and market the technology and results in positive economic impact within Maine.

EQUITY CAPITAL BACKGROUND AND DESCRIPTION

Equity Capital supports MTI grant and loan recipients as they advance their company to full commercialization and business growth. This funding, either equity investment or convertible to equity, helps attract initial early stage/pre-seed outside investment (typically referred to as Series A) and/or “tops off” a meaningful size investment round so that it is sufficient to carry a company to its next stage.

Historically MTI only offered Accelerated Commercialization Funding (ACF), which followed the terms and due diligence of accredited individual or institutional investors and served to “top off” an investment round. Over the past 24 to 36 months, given the challenging investment environment combined with the early stage of many Development Loan funded companies, there have been few opportunities for companies to secure follow-on funding where there were lead investor(s) for MTI to follow. Therefore, even for some of the strongest early stage MTI funded with high growth potential, a funding gap has emerged. MTI’s Equity Capital is intended to help companies bridge this gap.

MTI makes EC investments in companies that have strong management and technical teams, either already in place or identified; strong business growth prospects, preferably with solid intellectual property positions; owners committed full-time; other private sector funders willing to invest alongside MTI; customer interest and sales traction, already established or visible near-term; and, established enterprise infra-structure and organization, in place or in formation. Appropriate advisors and service providers, for example, legal, accounting and banking, should already exist or be selected and the company should be using an active advisory board and/or independent directors.

In the case of early stage/pre-seed investment candidates, MTI, matched by outside private sector capital, can help a company advance through the critical enterprise formation, team building and initial sales and marketing phase which, if done well, will position the organization to raise larger amounts of growth capital.

ELIGIBLE COMPANIES AND MATCHING FUND REQUIREMENTS

Who is eligible to apply? To be eligible for equity capital, companies must be MTI Seed Grant and/or

Development Loan recipients, with projects completed and in good standing, or have been awarded and completed an SBIR/STTR Phase I or higher federal grant.

In addition, to be eligible one must be a Maine-based company with operations in the state of Maine. *A Maine-based company is registered to do business in the State of Maine with definitive plans to create and/or retain quality jobs in Maine. Applicants must have a significant base of operations in Maine.*

- Companies with a significant base of operations/location in Maine registered to do business in the State of Maine may submit an application.
- Companies with no current Maine operations must demonstrate a clear plan to locate or base significant operations in Maine and execute on such plans prior to execution of an Equity Capital Agreement.

Matching Requirements

All MTI EC requires an equivalent private sector matching cash investment. In certain circumstances, a product development project funded by an outside independent corporation might be considered as meeting the requirements of a private sector cash match. Partnering with MTI and outside matching investors/corporate partners will provide the company access to expertise and networks in addition to investment capital. Thus the funding is particularly well suited to companies seeking shareholder partners and added value expertise in addition to funding.

TYPE AND USE OF FUNDS

MTI and matching private sector funds are expected to finance an initial 6 to 12 month period and, for this stage, could typically be in the range of \$100,000 to \$200,000 from MTI. MTI will lead the investment terms, if needed, and offers a standard convertible preferred note. MTI will consider accepting terms and conditions agreed to with outside private investor(s) and requires that, in either case, all invest based on the same conditions and financial terms. Early stage/pre-seed investments by MTI can be, if warranted, followed at a future date by MTI also participating to top off a larger funding round.

In the case of later stage funding, MTI seeks to support MTI Development Loan recipients, who have successfully completed their project, or others who have received early stage/pre-seed funding from MTI. In this situation, investments are made as co-investments with accredited individuals and/or institutional investors, following the terms and due diligence of these partners. These “top off” investments from MTI are expected to be in the range of \$75,000 to \$125,000. Additional follow-on investments for later stage funding will be considered on a case by case basis.

INVESTMENT PROCESS

MTI will consider investment requests on a rolling basis and may also, from time to time, solicit requests in advance of a published due date. Applicants should be prepared to submit a business plan and investment need summary (typically no more than 5 pages) in anticipation of meeting with MTI.

Such summary plans should include;

- A one line pitch statement
- Business Summary
- Product/Service Description
- Management Team Description
- Customer Problem Being Solved
- IP/Technology Status

Target Market
Commercialization Plans/Status
Customers
Sales/Marketing Strategy
Business Model Description
Competitors
Competitive Advantage
Achievements to Date
Investor Exit Strategy
Financial Information
Proposed Deal Structure
Company Profile
Contact Person
Advisors/Directors
Investors to Date

MTI will gauge interest in an investment based on the review of the summary business plan, meeting(s) with the management team and an assessment of the readiness of the company to take in outside investment and fulfill the due diligence requirements leading up to the investment decision. It is important to appreciate that entering “serious” discussions and due diligence requires significant time and some resource commitment from both MTI and the company, thus being ready and having a solid interest is critical. This discussion and due diligence phase typically can take 90 days and the investment, if recommended, must then be approved by the MTI Board of Directors, at its next scheduled meeting, which typically takes place monthly (except in August and sometimes December).

REVIEW PROCESS AND CRITERIA

Funding requests will be reviewed by MTI as well as a volunteer committee of experienced investors with all final recommendations approved by the MTI Board of Directors. Below are some of the factors that will be taken in consideration to form the recommendation:

- Potential for financial return, as assessed from the business growth prospects, management team capability and experience/track-record, valuation forming the basis for the investment and the sophistication/track-record of the co-investors (if identified at this stage) as well as, in the case of early stage/pre-seed investments, the ability of the outside investors to attract meaningful next stage capital.
- Potential for economic benefits to Maine, primarily the sustaining and creating of higher paying technology intensive jobs as well as contributions to strengthening the relevant Maine technology cluster.
- Plan for the use of funds and the time-frame that the funds will sustain and the probability of the company progressing successfully to its next funding point or to a place where it can be financially self-sustaining.

MTI or matching investor funds may not be used to pay earlier investors or prior debt and must be fully available to fund the planned activities on a going forward basis.

ADDITIONAL INFORMATION

- MTI typically conditions its investment on taking an observer seat on the company's Board of Directors and, in all cases, requires rights to all Board information.
- Companies that receive Equity Capital remain eligible for MTI R&D funding programs, such as TechStart Grants, Seed Grants and Development Loans.
- Overall, MTI typically does not invest more than \$1 million in a single company (total of Development Loans and Equity Capital) and MTI prefers that its funding does not represent more than one-third of a company's financing.
- MTI is a patient investor and considers itself a committed partner with the company. We don't "fund and forget" and expect to be regularly engaged with the company management team and provide access to our extensive network throughout Maine and beyond.

For more information, please contact Joe Migliaccio, the Business Innovation Program (BIP) Manager at jmigliaccio@mainetechnology.org or 207-582-4790 x204, or any other member of MTI's BIP team.