February 7, 2018

Committee on Business and Transportation
Senator Lee Beyer
Committee Chair

RE: SB 1516 – Written Testimony in Support of Small Business Expansion Loan Fund(s)

Testimony of:

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Chairman and Committee Members:

My name is Jason M. Moyer, Deschutes Country resident and business owner. I greatly appreciate the opportunity to submit this written testimony in support of Oregon's existing and proposed small business financing programs.

I trust you'll find my background pertinent to current proceedings. I am a native Oregonian, and my entire business career is founded in this State, starting with degrees in Management and Business Administration (BS, MBA) earned from Oregon State University. Subsequently, I've worked with several of the State's largest employers, including Intel Corporation and PacifiCorp. Since 2006, my Bend-based venture development and executive management consulting firm, Cascadian Group LLC, has engaged with early-stage to mid-cap companies across the western US, with particular concentration in Oregon.

While our 50+ clients have included some of the largest, fastest-growing, and best-capitalized employers in the region, it is worth noting that such prominent Oregon businesses are an exception. In Central Oregon, the vast majority of businesses have five or fewer employees, with growth ambitions that are often constrained by lack of capital.

In my experience, the community has many misconceptions about the capitalization of small businesses, including the most viable sources for capital, along with the characterization of companies where external financing might prove most beneficial. In any case, plausible financing options are not as prevalent as they might seem.

The following research compiled from the Center for Venture Research, US Small Business Administration, Angel Resource Institute, and Angel Capital Education Foundation, published several years ago via 'Entrepreneur', serves to underscore my professional observations. Among small businesses starting up:

- 57% are funded largely by the entrepreneur's personal savings and credit (averaging $48k invested)
- 38% are funded by friends and family (with an average of $23k invested)
- Only 1.43% will secure a bank loan (averaging just under $144k loaned)
- Only 0.91% will secure backing from angel investors (averaging just under $75k invested)
- Only 0.05% will secure venture financing (averaging over $5.9M invested)

To put these statistics in perspective, 95% of companies are funded via highly personal sources, and struggling to operate on a capitalization well under $100k. I regularly meet founders who are trying desperately to hire employees and accelerate revenue growth while working for free, depleting their personal assets, and borrowing from family members. Such challenges are more common than we should hope, and I have personally endured these harsh realities in founding my own Oregon-based company.

Driving companies to swift profitability might seem an attractive "solution" to overcome early capital constraints (e.g., SBDC coaching programs, etc.). Unfortunately, high-growth businesses often require <u>more</u> working capital for inventory, etc., along with incremental growth capital to fund expansion initiatives. These high-growth businesses will often have a financial profile that is quite unpalatable to traditional financial institutions like banks (because such companies are deliberately emphasizing future growth versus the near-term profitability that would translate neatly into capacity for fixed debt service). While high-growth businesses are comparatively attractive to equity participants like angel, VC, and other private equity investors, we've already established that those sources are statistically improbable (i.e., effectively unobtainable for most).

So, where should the State's most promising companies turn to fund their growth? Several of our clients have recently found substantial capitalization through non-traditional lenders such as Craft3 and Business Oregon. I view these lenders as a critical bridge between private startup capital and conventional banking instruments. First, Craft3 and Business Oregon have consistently been more tolerant of the early-stage, high-growth risk profile. Second, these interim resources have an investment capacity greater than the typical private investor (who might invest only $25k to $50k individually, and must be personally known by the entrepreneur).

Business Oregon, for example, extended $250k in revenue-based financing line to a specialty foods company that I'm actively working with, providing the founders financial confidence to hire a new sales manager and fund purchasing for large customer orders – after banks had already turned them down. The revenue-based repayment structure fluctuates with natural variations in the business, posing lower cash-management risk for the company, and providing risk-appropriate returns on State funds.

In my observation, resources like Craft3 and Business Oregon perform an essential role in addressing gaps in the capital continuum that nobody else is likely to fill. Business Oregon has been broadly supportive in our regional efforts to strengthen the entrepreneurial ecosystem, directly funding growth companies and participating generously in Bend Venture Conference events that highlight the vast economic potential evident among small businesses that might otherwise be overlooked.

I can confidently assert that the State's small business financing programs, when sensibly deployed, directly impact employment and economic growth, having personally witnessed the favorable impact on multiple companies operating in Oregon. I consequently urge you to vigorously advance the subject small business funding agenda.

Respectfully,

Jason M. Moyer
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