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Money



Where's the Money?

Tough times call for creative financing.

BY DAN EMERSON

IN THESE CHALLENGING ECONOMIC TIMES, one major hurdle for business owners has been securing growth capital. The good news is that some entrepreneurs, bankers and agencies have responded with new initiatives and creative solutions to the “tight money” dilemma.

A recent \$10 million fundraising round by Plymouth-based Interrad Medical is an example of creative financing on the entrepreneurial side. Rather than the more common strategy of seeking Series C financing from venture capital firms, Interrad CEO Joe Goldberger chose a non-institutional avenue.

Interrad, developer of an improved catheter-securement device, completed a private placement with the help of Minneapolis-based RBC Wealth Management Group, in collaboration with RBC Capital Markets. RBC financial advisers played matchmaker, introducing some of their high-net worth clients to Interrad executives.

Goldberger says his decision to bypass the VC route was “based on my view of the venture capital community. There were two issues. One is that the terms venture capitalists set for companies like ours tend to favor toward those who invest in subsequent rounds, to the detriment of those who invested earlier”—meaning that VCs

set conditions to ensure that, if a company does succeed, they will be rewarded on a much greater scale than earlier, “friends and family” investors.

As has been widely reported, venture capitalists have become more risk-averse and less prone to invest in early-stage companies, Goldberger says. “The landscape has changed considerably: Often venture capitalists will only invest in their own portfolio companies; or, if they do invest in early stages, it’s usually with companies that are already generating significant revenue.”

His advice for other startup entrepreneurs who might consider taking a similar route:

First, “consider the complexity of your technology. Our technology is very straightforward and easy to understand. If people don’t understand a technology, they are much less likely to invest in it.” About half of the firm’s roughly 50 Series C investors are physicians “who understand implicitly our technology,” Goldberger notes.

Second, the process of lining up angel investors is very time-consuming. “You need to be willing to expend the time and have the ability, as well as current capital, to meet with a lot of people,” says Goldberger, who has talked to more than 500 prospective investors since 2005.

More Financing Sources for Growth-Stage Companies

Angel network:

Bringing entrepreneurs and investors together is the mission of the new Minnesota Angel Investor Network (MNAN.org). “We’re the first group in the nation to link a virtual business-accelerator to a (web) portal,” says Executive Director Todd Leonard. For Minnesota-based companies seeking to raise between \$50,000 and \$4.5 million, MNAN provides fundraising education customized to the company’s needs and, gives investors access to entrepreneurial companies certified to meet MNAN’s standards for quality and excellence. “We have a stringent certification process, based on a Six Sigma approach,” Leonard says, “with the objective of taking companies— using a martial arts analogy—“from yellow belt to black belt.”

Government funding:

Some increased federal funding for small-business lending is being funneled through state governments. Minnesota Gov. Mark Dayton recently announced a new program called the Minnesota Small Business/Banking Partnership. It’s been established by doubling in size an existing program to make an additional \$100 million to \$200 million available to qualifying Minnesota banks for direct lending to job creators.

Small business network:

One of the longstanding resources to help small businesses obtain capital is the Minnesota Small Business Development Center Network, which has been in place since 1980, under the umbrella of the Minnesota Department of Employment and Economic Development (DEED). With nine regional offices, the network provides consultants who meet one on one with business owners for no charge; provides training and other assistance to entrepreneurs with SBA loan-applications; and also works with local, community lenders on non-SBA loan-products, according to SBDC State Director Bruce Strong.

