

BUSINESS FINANCE:

Small Business Expansion Program Revenue Financing

Alternate Financing Solution

Business Oregon's new financing option allows businesses to pay a periodic revenue payment as a percentage of net sales combined with scheduled monthly payments of principal and interest (fixed rate) to accommodate growing companies that may not qualify for traditional financing.

HOW IT WORKS

The percentage of sales varies per applicant. Business Oregon seeks to realize a target return on investment—from repayment of principal, interest and revenue payments—over a three- to seven-year period. Additional payments may be required in event of early payoff or sale of the company. Once the pre-determined return target has been achieved, all payments stop and the company has satisfied its repayment obligations.

KEY REQUIREMENTS

The company must satisfy all requirements of the OBDF program including, but not limited to, being a traded sector business and having significant job creation impacts. Each royalty financing request will be evaluated on a **case-by-case** basis, but the following will be required, **in general**:

- Existing history of sales
- Potential for rapid growth in sales
- History of significant gross profit margins or reasonable expectations of ability to achieve significant gross profit margins
- Collateral to secure the loan or personal guarantees of major owners
- Typical financing amount of up to \$250,000.

BENEFITS

Revenue financing provides many benefits to Oregon businesses compared to traditional debt and equity financing, including:

- The business owner does not dilute ownership interest.
- Revenue financing may be less expensive than equity based investment.
- Makes financing available that may not be available from traditional sources of debt or Business Oregon's other business finance programs.

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Revenue financing provides many benefits to Oregon businesses compared to traditional debt and equity financing. Business Oregon can provide revenue financing to support growing Oregon businesses through its Oregon Business Development Fund (OBDF) direct loan program.

Revenue financing is not a conventional loan or an equity investment. It is a good fit for situations in between "almost bankable" and angel or venture capital deals, similar to mezzanine financing for working capital.

BUSINESS OREGON

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Business Oregon is an agency
of the state of Oregon.

REVENUE FINANCING EXAMPLE:

An information industry company with existing products and revenues plans to add new products and create 12 new jobs. The company's annual sales are projected at \$2,000,000 in year one after the project funding. The total project funding is \$1,250,000, primarily for working capital. Business Oregon provided a \$250,000 OBDF revenue financing loan with the remaining financing coming from equity investors. The OBDF loan was 5-year term, 8.25% interest rate, and quarterly revenue payment of 1.10% of net sales.