ALTERNATE FINANCING

Banking Partnerships in Demand

By Rebecca Patrick

Under the umbrella at Cambridge Capital Management Corp., four separate funds partner with banks to give borrowers fixed-rate money. The terms of the loans vary, going up to 20 years if it's a real estate-based transaction.

Since its inception 25 years ago, the Indianapolis firm has assisted more than 1,200 companies seeking growth capital with over $440 million.

With the tightening credit market, Jean Wojtowicz, president and founder of Cambridge Capital Management Corp., says banks (and thus businesses) are now turning to her group earlier than they normally would have.

"We tend to see more and better quality applications because in the past, when times were good, banks would be doing loans without bringing in a partner, an alternative financing source to the table," she offers.

The companies involved in these deals have high-financing needs. "So they would be more capital intensive businesses, manufacturing for instance. But we also are seeing an awful lot of service businesses as this is becoming more of a service economy," Wojtowicz notes.

"We're doing a lot of lending to professionals – to doctors, veterinaries, funeral homes, other service providers, as well as to other service industries that may not be tied to a professional degree."

The Indiana Statewide Certified Development Corporation, the oldest of the four Cambridge funds, is certified by the Small Business Administration to provide fixed-asset financing – land, building and equipment financing – for Hoosiers companies. The minimum project size is $125,000 and there is generally a job creation requirement.

Founder Jean Wojtowicz views this economy as an opportunity for Cambridge Capital Management Corp. "to build a pretty strong portfolio of really good companies."

"This fund doesn't refinance any existing debt; it's only when companies are buying, expanding or purchasing real estate equipment. It can also be used when companies are looking at acquisitions," Wojtowicz suggests.

"This is our high volume lending product because it can be more aggressive than conventional financing in its advance rates, and it really provides better rates and terms than what a bank can provide on its own. Banks actually use this product for some of the very best borrowers because it has very attractive terms."

Additional options

Started in 1986, the Indiana Community Business Credit Corporation involves mezzanine financing (or higher risk capital). It's owned by approximately 35 banks, which purchased stock in this business and provide a line of credit that creates a $30 million pool of capital.

According to Wojtowicz, "This fund is for projects that banks really like, but they can't stretch far enough to do all of the financing. We typically provide somewhere less than $750,000 to a company, but we'll only do it if a bank is providing that much or more."

Businesses owned by racial minorities can turn to the Lynx Capital Corporation. "What we look for are existing companies that have some track record, but who need some growth capital to help them grow from one level to the next level," Wojtowicz states.

"We hope in the process that what we are creating are some really good business role models in the minority community that will have additional spinoff effect in the various communities where those businesses are located."

The minimum Lynx project size is $75,000, and the borrowing company needs to have at least five employees and three years of operating history.

The fourth entity is a small venture fund called Cambridge Ventures, L.P. Licensed as a small business investment company, it provides between $100,000 and $1 million to promising firms within 200 miles of Indianapolis.

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While venture funds are struggling nationally in this economy, Cambridge Ventures is faring better because of how it's structured.

"When we make an investment, we're not expecting that company to go public in order to get our money back. We're providing growth capital to companies that just make money," Wojtowicz explains.

"The way we are going to exit or the way we are going to get paid back is by the companies growing their way out of our money, refinancing with a bank or just paying us off through cash flow. That's not typical of most venture funds. Most need a transaction in order to exit. They need to sell the company. They need to take the company public. And those don't happen very often … if they (the venture-backed companies) get one (out of 10) that hits it really big, it has to carry the other nine that don't.

Wojtowicz also shared a new report that placed the 2008 year-to-date IPO value as a full one-third less than 10 years ago.

"The public market has really not been kind to these venture companies since 2001. Those were the heydays," she surmises.

INFORMATION LINK

Resource: Cambridge Capital Management Corp. at (317) 843-9704 or www.cambridgecapitalmgmt.com