

Stanley Software Finance Inc.

To Liquidity and Beyond!

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Financing Strategies for High Growth Companies

Breakfast Seminar, 8 December 2004

Innovation Synergy Centre in Markham

CEO = Cash Extraction Officer

- CEO's of High Growth IT Companies spend 35-50% of their time raising Funds

Wtd. Avg. Cost of Capital

$$\text{Wtd. Avg. } K_c = (\%K_d * K_d) + (\%K_e * K_e)$$

where K_c = Cost of Capital

K_d = Cost of Debt

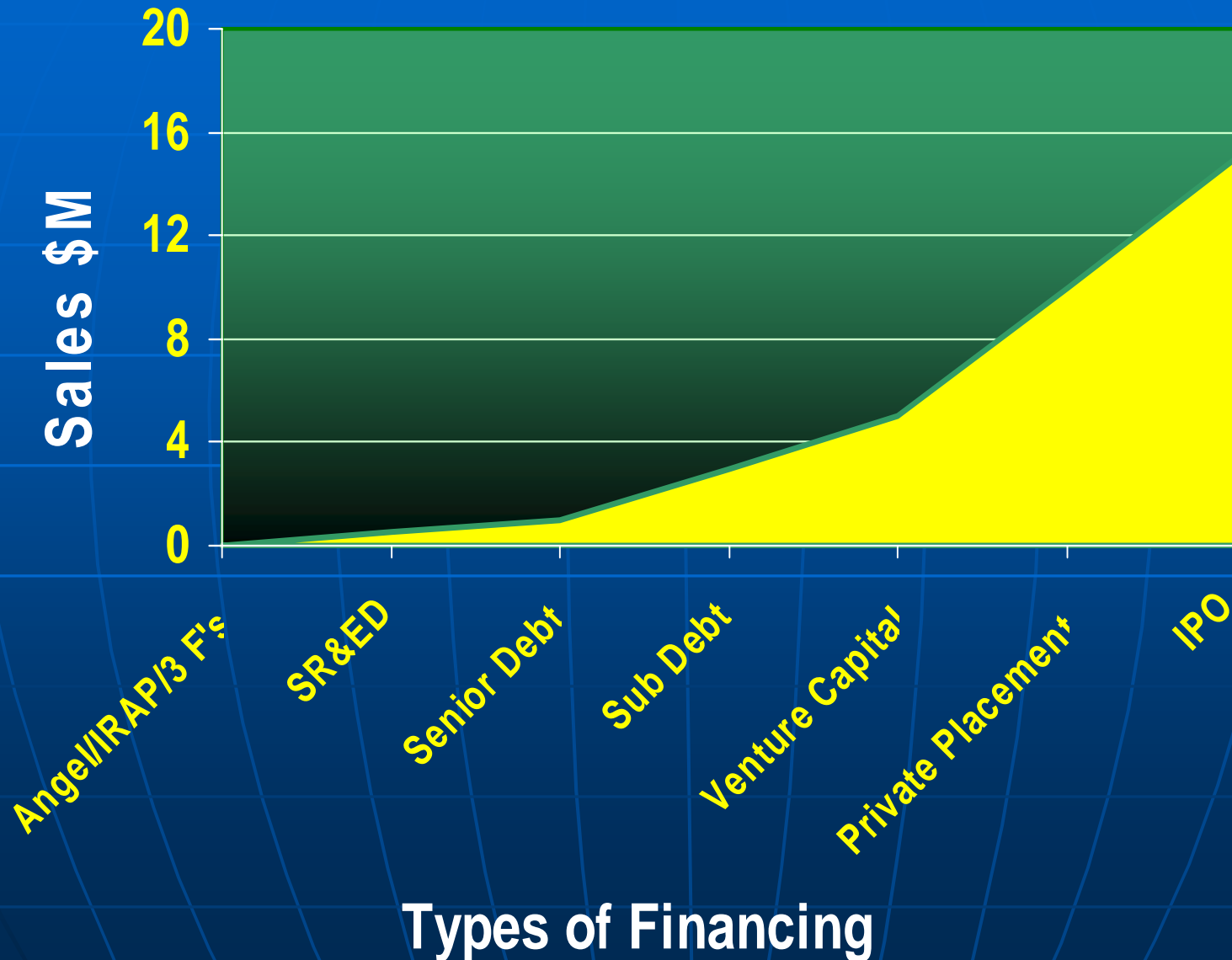
K_e = Cost of Equity

Minimize Wtd. Avg. Kc

Minimize Cost of Capital, subject to:

- Some Debt has Equity Features
- Some Equity has Debt Features
- N.B. Interest is tax deductible; Dividends are not
- Availability

Capital Available to Hi-Tech



3F's – Angel - IRAP

- Seed Stage
- Pre-Revenue
- " Working on It "
- Se NRC for IRAP

SR&ED Tax Credits

- Zero Cost of Capital !
- Up to 41.5% of eligible costs in Ontario
- Refundable – C.C.P.C's can receive cash back even if you've never paid taxes
- **MUST claim within 18 months of fiscal year end**

Senior Bank Debt

- Bank Operating Line; Some Term Line
- Need Revenue & AR
- Need Profits or VC Backing
- Profits are "Mother's Milk";
VC is "Sugar Water"
- Many Bankers avoid the Space
- Kd is Low
- See (and Hear) Mark Usher

Subordinated Debt

- Alternative to VC Equity
- Specialized Lenders & Some VC's
- Minimizes Founders Dilution Can be a "Double Edged Sword"
- Be Sure that you will have Cash Flow to Meet Repayment Schedule

Venture Capital

- Ideally Hot Product in a Hot Market Space
(e.g.. RFID, Wireless)
- High Growth Focus
- Oriented Towards NA or Global Markets
- Dedicated, Effective Management
- K_e is High
- See (and Hear) Peter Carrescia

Private Placement

- Could be Debt or Equity
- Dedicated, Effective Management
- High Growth Focus
- Likely for more “Mature” Companies

Initial Public Offering

- Market Demand is there for great issues
- Relatively Complex & Expensive
- Compliance & Governance Issues
- Unlikely for most Software Co.'s
- "Drives the System"
- Key Influencer in VC Deal Pricing since it's a Key Liquidity Point for VC Deals

Trends to Watch For

- “Nuclear Winter” in Financing is Over
- Debt/Equity Substitution
- May see more Sub Debt and less Preferred Shares
- Due to interest deductibility, and new accounting regulations
- Valuations are Trending Upwards

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