



## Vision.

Iowa Agricultural Finance Corporation will provide the financial and business leadership, expertise, and financial leverage to help Iowa agricultural producers, Iowa agricultural industry ventures, and Iowa biotechnology enterprises lead the world in responsibly produced, high-quality value-added agricultural products and services, profits, and growth in the twenty-first century.

## Mission. Iowa Agricultural Finance Corporation will:

- Make prudent investments in the business ventures and emerging technologies necessary for Iowa's leadership in responsibly produced value-added agricultural, food and biotechnology products and services.
- Help qualified Iowa agricultural producers obtain equity interests in Iowa value-added agricultural industry ventures.
- Help qualified Iowa value-added agricultural industry ventures obtain financing for growth.
- Help qualified biotechnology enterprises grow and foster Iowa's biotechnology industry in general.
- Deliver a competitive return to investors.

## A Short History of State Assistance for Equity Capital Formation in Iowa

IAFC faces a difficult task based on State's record, but can succeed by learning from history.

1. **Iowa Seed Capital Corporation (ISCC)** Born 1983 -- Died 1998. Quasi-public venture capital investor intended to invest like a private business in companies with significant growth prospects. Operated by State employees, subject to annual appropriation for continued funding. (Began life as Iowa Product Development Commission.) **Problems.** Too small; too expensive to operate (relative to size); failures obvious before successes; public agency perceptions and restrictions; and pressure for short-term results. **Results.** Retooled frequently. Lost funding in 1996. Liquidated by order of Legislature in 1998.
2. **Iowa Fund Limited Partnership** Born 1986 -- Inactive Present. Private investment fund with capital required to be contributed by Iowa Public Employees Retirement System (IPERS). Hired private manager in typical venture fund structure. **Problems.** IPERS was unwilling participant; narrow funnel; fast deals rather than good deals; and passive marketing. **Results.** IPERS happy to get out at a loss.
3. **Business Development Finance Corp. (BDFC)** Born 1989 -- Died 1999. Shared public and private leadership with leverage resulting from investments into BDFC by private shareholders. 7 public board members and 5 private. Public employees as management with contract private investment advisors. Up-front State investment proposed at \$50 million but only funded at \$4.65 million. Total fund size was \$11 million. Majority of 160 some private investors were banks. Sunsetting by original legislation after ten (10) years. **Problems.** Conflicted leadership; perceived political judgment not business judgment; too

# Iowa Agricultural Finance Corporation



small; initial investments too risky; failure to manage investments; lack of dry powder; no reinvestment of returns to repeat success; sunset date – therefore not a long-term player. **Results.** Private sector will get money back and promised return, but banks unlikely to repeat as equity investors. Currently in closure mode. State unlikely to get much if any of its money back from investments. Overall losses likely to be in the millions. (Not counting tax revenues generated by new economic activity – there has been some public benefit.)

4. **Iowa Capital Corporation (ICC)** born 1991 – died 1999. Similar to BDFC with targeted co-investors being electric utilities rather than banks. Only two cooperatives participated. Total of \$5.5 million available, but only \$3.5 million placed in 12 different portfolio companies. **Problems.** In addition to the problems experienced by BDFC, ICC added the following: too few private investors and narrow funnel. **Results.** Better than BDFC. One homerun with McLeod Communications enough to make the difference. (Private venture fund's success often turns on the success of only one or two deals.) Total profits in the millions. Private partner bought State out to resolve conflict in management and to retain possibility of using structure for private deal-flow beyond originally planned sunset.
5. **Heartland Seed Capital Fund** Born 1992 – Died 1994. Private seed capital fund with IPERS as exclusive investor. Contract money manager. Total fund size was \$15 million. **Problems.** Passive marketing; small size; and narrow funnel. **Results.** Management contract terminated after three (3) years. Failed to place the money. Manager content with annual management fee. IPERS not content to pay annual management fee without effective placement of funds.
6. **Lessons incorporated in design of Iowa Agricultural Finance Corporation.**
  - a. **Model.** Publicly chartered, but turned over to pure private management like FannieMae or FarmerMac at the federal level. Funding is a one time, interest-free long-term loan for \$25 million to be leveraged with additional private investors. Charged with making a profit and pursuing a public purpose, promoting the strategic growth of value-added agriculture and biotechnology in Iowa. Part of "Iowa as the Food Capital of the World" vision. IAFC will seek investment opportunities that fit with Iowa's historic agricultural strength but that are focused beyond the farm gate. IAFC especially seeks investment opportunities that benefit Iowa agricultural producers through ownership, long-term supply relationships or that use Iowa agricultural commodities for inputs.

**b. Lessons applied:**

Consistent, private leadership	Critical mass – sufficient to be self-sustaining
Wide funnel – not limiting hunt to only Iowa	Perpetual existence – long-term player
Proportionally low fixed operating expenses	Business judgment standard for investments
Focus on doing it right from the start	Structured to appeal to private investors
Proactive marketing and proprietary deal flow	Proactive management of investments
Dry powder – to reinforce success	Ability to go and do it again



- c. **IAFC's Progress.** Serious and capable players involved on the team.
- (1) **Cybus Capital Advisors - Fund Manager.** A national niche investment banker specialized in agriculture and food technology, with Iowa headquarters.
  - (2) **Piper Jaffray Inc. - Investment Banker.** Midwest's leading investment banker.
  - (3) **Leverage.** Private Placement Memorandum planned to limited audience of sophisticated institutional investors. (Limited offering avoids cost and expense of public offering and assures investors are experienced in similar deals.)
  - (4) **Promising Deal Flow.** Already reviewing several promising opportunities. Like any investor, we will sort through many rocks to find the gems, but we're already seeing enough sparkle to be convinced there are good deals to be done.

## 10 Key Points.

1. **Private, For-Profit.** IAFC is a private, for-profit investment fund, not a public agency.
2. **Target Market.** IAFC's target market is value-added ag processing and biotechnology. IAFC seeks to improve the market for Iowa ag commodities and encourage producer involvement in ownership in processing ventures beyond the farm gate.
3. **Not Production Agriculture.** IAFC is not focused on production agriculture. Legislature requires IAFC to help process what Iowa producers already grow, not add more to the surpluses currently depressing prices for almost every farm commodity.
4. **Leverage.** IAFC is seeking to leverage the State loan with private equity into a larger, self-sustaining investment fund.
5. **Compete for Capital.** IAFC will compete for capital by producing competitive returns for investors. Success breeds success and fuels more growth. Ultimately must satisfy total return investors, not just Friends of Iowa.
6. **Investments not Grants.** IAFC is not a source of grants. We have to make money to pay-off loan.
7. **Equity or Near Equity Financing.** IAFC is not offering cheap money. We are offering money in a form not generally available in Iowa, equity or subordinated debt (near equity).
8. **Not Asset-backed Lending.** IAFC is not a substitute for banks. Plenty of asset-backed lending available in the State. We don't want to compete with banks or Farm Credit System, both of which have far better retail distribution networks.
9. **Exit Strategy.** IAFC is making equity investments not evergreen loans. It must be able to exit any individual investment within a reasonable time period to realize gains and reinvest in other opportunities.
10. **Lean, Cost-conscious.** No intention to create large staff. Not duplicating resources already available in Iowa. Partnering with those that have necessary skills by hiring experienced consultants. Strict cost control pays long-run dividends in higher rates of return.