

tecTERRA Food Capital Fund

A product of the Iowa Agricultural Finance Corporation



Iowa Agricultural Finance Corporation, a for-profit corporation pursuing a public purpose – new investments in Iowa food and biotechnology opportunities, especially involving agricultural producers in ownership and other benefits of growth.

I. Summary. Equity available for food processing and biotechnology growth opportunities with ties to Iowa, especially those offering ownership opportunities and other benefits to Iowa agricultural producers.

II. Introduction.

A. Purpose of Paper.

1. **Report progress to IAFC stakeholders.** Up and running. Initial financing by private investors in tecTERRA Food Capital Fund closed August 12, 1999. Now have \$43 million under management and actively seeking deals in portfolio companies to put money to work. Expect within several months to have \$55 million under management as a result of private placement of limited partnership units in tecTERRA. Portfolio diversification suggests \$1-5 million for average investment size. Larger deals can be financing through co-investment, by tecTERRA bringing in other investors.
2. **Establish reasonable expectations.** tecTERRA is not a silver bullet for the current farm crisis but a long-term investment towards Iowa's goal of becoming the World Food Capital and involving agricultural producers in the benefits of the growth of Iowa-based processing and ownership in profitable food processing and marketing companies.

May take several years to fully invest \$55 million. Have to sort through lots of deals to find the best deals. It is not first come first served, but a competition for the best place to invest limited moneys. More important to manage the money well than to make fast investments. Need to demonstrate to private investors:

- that good opportunities exist in Iowa,
- that tecTERRA's professional investment managers can find the deals, and
- that involving Iowa agricultural producers in profitable ventures is mutually beneficial.

tecTERRA will review many deals to find fifteen to twenty opportunities offering both the potential profits and the minimum ties to Iowa and producer benefits necessary for success. Many good companies or opportunities may not be appropriate for equity investment by tecTERRA, but would be better financed by secured debt through traditional financial institutions or other financing sources.

B. What and who is Iowa Agricultural Finance Corporation (IAFC)?

1. **IAFC.** IAFC was formed as the result of a State law authorizing a \$25 million loan to help foster the growth of value-added agricultural processing through business driven investment in food and biotech companies, especially those involving agricultural producers in ownership or other benefits. We are specifically directed by the Act to make decisions on investments based upon prudent business judgment. While we are a complement to State development efforts, we are not part of State government. There are some things, especially involving applications for funding or review of prospective investments that are by necessity proprietary to our clients and which we are required to keep confidential. (Unless the client makes them public or otherwise authorizes us to discuss such matters.) We are required to report on results (after the fact).

2. **IAFC Board, Staff and Partners.**

□ **Board of Directors.** The Board serves on a volunteer basis:

Chairman Tom Urban, former President, CEO and Chairman, Pioneer Hi-Bred International, Inc.

Vice-Chair Duane Acker, former President Kansas State University and current President Southwest Iowa Egg, a closed-end value-added cooperative in Atlantic, Iowa.

Secretary Stephan Morain, General Counsel Iowa Farm Bureau Federation, and an experienced equity and venture capital investor.

Treasurer Leslie Miller, Vice President, Iowa State Savings Bank and instructor at Iowa State's Ag Credit School.

John Bloomhall, CEO Diamond V Mills, Cedar Rapids.

Paul Hill, Chairman and CEO of Iowa Turkey Growers Cooperative and West Liberty Foods, an experienced food processing entrepreneur.

Bill Horan, Past President, Iowa Corn Growers Association.

Jack May, President Kent Feeds and active participant in several Iowa and national commodity groups, such as the World Beef Expo. (Jack recently resigned due to a family health crisis.)

Jeff Plagge, President and CEO, First National Bank of Waverly and Chair of the American Bankers Association's Rural Economic Development Taskforce.

Wayne Seaman, CEO, West Central Cooperative, a successful Iowa cooperative active in value-added processing and niche marketing.

- **Executive Officer and Staff.** President Daniel Pitts Winegarden. Administrative support and other services provided on an as need basis by other contractors.
- **General Partner – Cybus Capital Advisors.** Cybus is an experienced national investment banker specializing in food and agriculture. It has offices in key food states, including California, Colorado and Florida, and is headquartered in Des Moines. Cybus has successfully placed approximately \$2 billion in food and agriculture related companies over the last twelve years.

C. What is tecTERRA Food Capital Fund?

1. **tecTERRA.** tecTERRA is the tradename used by IAFC in the marketplace and tecTERRA Food Capital Fund is the first offering. tecTERRA Food Capital Fund allows sophisticated institutional investors to invest in Iowa value-added and biotech opportunities along with other investors. It provides the mechanisms for finding and cultivating growth opportunities for Iowa and Iowa agricultural producers to participate in the functional food chain beyond the farm gate.
2. **tecTERRA Food Capital Fund.** IAFC's tecTERRA Food Capital Fund is a private-for-profit equity investor in Iowa's value-added processing and biotechnology sectors. tecTERRA does not offer free or cheap money (grants or subsidized loans) but money in a form historically not available in Iowa (equity) due to lack of access, not lack of need. tecTERRA is a potential source of equity when the bank says, "It's a great business, but you need more equity."
3. **tecTERRA team – General Partners.**
 - **Cybus Group** is a national food and agriculture investment banker, headquartered in Iowa. Cybus brings the business judgment and business origination experience necessary for successful investment.
 - **IAFC** brings the financial foundation of \$25 million to invest in target companies.

III. Restate IAFC Objectives.

A. Focus.

1. **Food and Biotech.** Biotechnology, food and other high value-added agricultural processing are the primary target investments.
2. **Processing not traditional Production Agriculture.** IAFC's tecTERRA is not targeted at financing production agricultural ventures, but processing and other food and biotech activities beyond the traditional farm gate.

3. **Profitable not Political.** Business plan and financials a necessary starting point.
4. **Producer Ownership, Involvement and Iowa benefit.** IAFC seeks to achieve the goal of producer ownership and involvement through two directions. First, helping producers develop marketable producer-led business plans in the food industry. This typically requires stretching beyond first stage commodity processing into higher value-added activities with more unique value. Second, finding good business opportunities with non-producer led companies and finding creative ways to involve Iowa producers in the resulting benefits and ownership from a tecTERRA investment.

B. Methods.

1. **Education, coaching, business plan development assistance.** We want to help you win, whether it is with our money or not. (This is an IAFC duty, not the tecTERRA Fund's. The fund model means we can't load private investors with the costs of IAFC's public purpose.)
2. **Investments.** When asset-backed (secured) lenders say, "You need more equity," this is an alternative to finance growth. You win with our money, we win because the value of the company in which we are partners grows. Goal is not to spend \$25 million once, but to prove to private equity investors that market rates of return can be made in food and biotech with Iowa connections. And to prove to producers they can earn high returns as business owners. Result will be an ongoing stream of capital under Iowa management to fuel Iowa's growth to become the Food Capital of the World.

IV. Investment Target Description – Companies like these . . .

Ideal Investment. Describe the ideal investment opportunity or business factors considered.

- A. **Middle Market Food or Value-added Processing Company.** These will be primarily mid to later stage, privately owned companies ready for growth. They may include new joint ventures that include some experienced market players and management.
 1. **Price makers not price takers.** Other reasons to believe company will outperform average of competitors in a rising market niche. Looking for private companies that can successfully compete with the multi-national food conglomerates. Requires some advantage not easily copied by larger competitors with more money.
 2. **Brand equity.** (Consumer trust or preference.)
 3. **Distribution equity.** (Better way to get the product to market than the competitors.)

4. **Long-term supply contracts** (control input costs and margins).
5. **Long-term sale contracts** (ability to place substantial part of output at predictable prices to reliable distribution pipeline).
6. **Business plan.** A unique and advantageous business plan in growth market opportunity.
7. **Management.** Successful and experienced management in the business.
8. **Strategic partners** – who else is in the deal?
9. **Company size.** Private company with \$5 million to \$300 million in annual revenues.
10. **Investment size.** Average tecTERRA direct investment \$3-5 million. Maximum investment in any single project no more than \$11 million (20% of total funds), and more likely \$5 million. tecTERRA can do larger deals through co-investment. tecTERRA will probably have no more than 15-20 portfolio companies at most in the first fund. tecTERRA will generally own 10-49% of a portfolio company and will be represented on a company's board of directors, but will not participate in day-to-day management.

B. **Biotechnology.** May be earlier stage than the ideal food company opportunity.

1. Proprietary technology or other intellectual property.
2. Not financing research, but rather commercialization of technology already scientifically proven or patented. Technology need not be market proven, but plan should be plausible why product meets a market demand.
3. Average tecTERRA direct investment \$200,000-\$500,000. Have to keep some dry powder available to reinforce success with additional capital.

C. **Start-ups.**

1. Only a small share of total portfolio is focused on startups.
2. IAFC's need to repay the State loan limits the risk tecTERRA Food Capital Fund can take. Can't afford very many ventures that fail to return capital invested. Unfortunately, most start-ups fail.

V. **Coaching.** Unlike most private investors tecTERRA will try to provide guidance on why a financing is not immediately possible. Part of IAFC's public purpose includes increasing the knowledge and ability of Iowans to participate in growth-oriented food and biotechnology companies.

- A. Don't just say, "No," but share the reasons why it is a, "Maybe." We seek to help businesses develop plans that can attract institutional (professionally managed) equity capital, whether tecTERRA's or other investors.
- B. IAFC seeks to help food and biotech businesses become successful in Iowa, even if it is with someone else's money.

VI. **Sample Portfolio Company Sidebar - "Oh, you are looking for companies like that!"**

- A. Because the first deal or deals sets tone, it is essential to do the right deals not the fastest deals. More important to get an early track record of success than to place money hurriedly.
- B. We know the first deal sets the tone, and have already rejected a few deals not because they were bad opportunities, but because they were not clearly in the center of the target.
- C. At least once deal in final due diligence stage, several others in negotiation. Can't promise, but expect first placements before 2000 legislative session.

VII. **Leverage -- Bang for the buck.**

- A. **Fund Leverage.** \$25 Million IDED loan + \$30 Million private equity investment. Seeking to more than double working capital available for investment through Private Placement Memorandum seeking sophisticated institutional or accredited investors. (Not a public offering to the general public.) The tecTERRA Food Capital Fund is like a mutual fund for banks, insurance companies, and other businesses or sophisticated investors to collectively invest in private companies through a professionally managed fund.
- B. **Co-investment.** tecTERRA Food Capital Fund unlikely to be only equity investor in large deals. Seek to attract other equity sources by offering on-the-ground lead investment expertise and oversight. (Co-investors want someone who knows the business and is on the scene to watch their money.) tecTERRA expects its \$55 million to make available approximately another \$45 million in co-investment.
- C. **Deal Leverage.** Typically, a dollar of equity leverages another four dollars of debt. So IAFC's \$25 million invested through tecTERRA Food Capital Fund could mean \$500 million in direct economic investment in Iowa, even before the multiplier effect of dollars being respent in the economy.

VIII. **FAQs (Frequently Asked Questions).**

- A. **Have you made any investments yet?** No. Necessary amendments to our authorizing Act were only effective July 1, 1999. By August 12, we were operational with the tecTERRA Food Capital Fund. We have several deals

in active negotiation and at least one in final due diligence (negotiations on terms completed, but confirming the accuracy of representations). We reasonably expect to approve one or more investments by the end of the year; however, a deal may fail to come to fruition at any stage of the deal and will not be announced until conclusion of negotiations with the target company. Our emphasis is to do good deals, not just the first or any business prospects. We understand the legislature and Governor to expect strategic investments able to significantly advance Iowa's ambition to become Food Capital of the World. This means placing investments in profitable and successful companies. It will not aid Iowa farmers to involve them in losing propositions.

- B. **What is tecTERRA Food Capital Fund?** tecTERRA is the investment vehicle through which IAFC will both raise additional private capital from private investors and place investments into eligible businesses. It is structured as a limited duration (10 years) Limited Partnership, because that is the industry standard for investment funds including private investors, and the State expects private leverage.
- C. **What have you been working on recently?** Our first priority upon starting operations with the Food Capital Fund is to raise additional private capital, leveraging the State loan and putting more money to work for Iowa. Our goal is an additional \$30 million in private equity. After two months of sales of private limited partnership units we have raised approximately \$18 million of the \$30. With a focus on growth equity opportunities, we believe we can through the fund and co-investment, place approximately \$100 million into Iowa food and biotech businesses over the next three to five years. With a normal debt to equity ratio, this may mean as much as \$500 million in new investments for Iowa food businesses.
- D. **What is IAFC's target investment?** The ideal investment would be an established middle-market company (privately owned, not listed on a public stock exchange) with an operating record, proven product, and proven management. That's the ideal, an actual investment may deviate from this based upon a number of factors, including key strategic partnerships. The average investment would be \$1-5 million. (This translates into maybe 15 investments in the first \$55 million fund, assuming full subscription to the private offering or sale to institutional investors.) We could do larger deals if a deal is particularly attractive, but no more than 20% of the fund can go into a single venture. (The need to repay the State loan dictates prudent diversification of risk.) However, we can find co-investors so the total available through all sources may be significantly more than the slice directly through IAFC's tecTERRA Food Capital Fund.
- E. **Who can invest in tecTERRA?** tecTERRA is being marketed by US Bancorp Piper Jaffray as a private placement, limited to institutional investors (companies that invest as part of their business, like insurance companies and banks) and sophisticated accredited investors (high income individuals who

can afford the risk of an illiquid investment). No more than 100 limited partners are possible under securities laws. You might think of it as something of a mutual fund for professional investors, but not the general public.

- F. **Who are IAFC's shareholders.** Currently, no one. Eventually, the agricultural producers benefited by IAFC's tecTERRA investments will be eligible to buy shares in IAFC and also share in the profits of IAFC's investments. A volunteer Board of Directors currently operates the corporation.
- G. **How is tecTERRA operated?** IAFC is a general partner in tecTERRA. The other co-general partner is Cybus Group, a national investment banking firm specializing in food and agriculture. Cybus is headquartered in Des Moines, but has offices in several other key food states, such as California, Florida and Colorado. Cybus has placed almost \$2 billion of business over the last 12 years. They were selected after a competitive process, based upon their ability to both originate business (proactively find good deals) and to analyze proposed investments. There are currently twelve (12) professionals at work on both jobs. To make an investment Cybus must agree it is a good business opportunity (their area of expertise) and IAFC must agree it serves the public purpose (IAFC's duty).

IX. How to contact IAFC/tecTERRA Food Capital Fund.

A. Contact Information.

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(Still under construction.) The www.foodpartners.com web site offers general information on IAFC, its mission, management and corporate record. The www.tecterra.com web site offers: online registration to receive periodic updates and downloadable application information and forms in Adobe Acrobat or .pdf format.

B. Application and Review Process.

1. Not like applying for a car loan or government grant.
2. Each deal is individually negotiated given the unique circumstances of each business.
3. An application starts with the presentation of the business concept in the form of a business plan with both current financials and pro

formas (projected financials). The business must be in a tecTERRA target market. A meeting can be arranged through the contact information above.

4. Yes, no or maybe if. . . We'll try to provide guidance for further development to help you get to yes.
5. Due diligence. Has to be a good business deal with sound prospects of success. Minimum statutory eligibility is not enough.
6. Bringing in a money partner for a limited period of time to fuel growth. Sharing the results of that growth. Planning an exit strategy is an essential part of the process.