

Kentucky Highlands Investment Corporation

“Creating Wealth in Kentucky -
The Developmental Venture
Capital Model”

Kentucky Highlands

- ▶ Founded in June 1968 as part of War on Poverty
- ▶ Community Development Corporation
 - Located in Southeast Kentucky
 - Not very successful from 1968 – 1973
- ▶ 1974 - Pursued Developmental Venture Strategy
 - There were 36 Title VII CDC's founded in the late 1960's, KHIC was the only one to evolve a Developmental Venture Capital Strategy.
- ▶ Founded as 501(c) (3) -- Converted to 501(c) (4)
- ▶ 1990 - \$15,000,000 in total assets
- ▶ Today - \$47,000,000 in total assets

Unique Board of Directors

Bankers Engineers

Judges School Janitor

Farmers Entrepreneurs

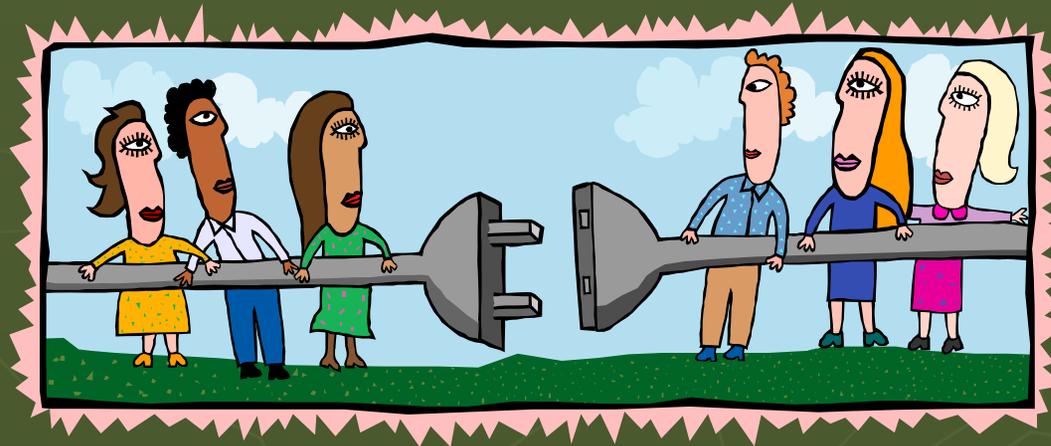
Grocery Store Clerk

College Professors



**Must Have Strong and Honest
Board Support For Strategy**

Very Strong Staff --17



- ◆ 6 Accounting / Finance
(Includes three CPA's)
- ◆ 1 Computer Engineering
- ◆ 6 Masters Degrees

- ◆ 1 Industrial Engineer
- ◆ 3 Developmental
Planners
- ◆ 4 Administrative
Support

National Community Development Affiliations and Awards

▶ Ray

- Chairman – Community Development Venture Capital Alliance
- Board of Governors – National Association of Small Business Investment Corporations
- Board Member – New Markets Tax Credit Coalition
- Member – Community Development Financial Institution Coalition

National Community Development Affiliations and Awards

▶ Brenda

- Rural Advisory Committee – Rural Local Initiative Support Corporation
- Member – Opportunity Finance Network
National Community Capital Association
- Member – National Congress for Community Economic Development

National Community Development Affiliations and Awards

▶ Jerry

- Vice Chairman – The Center for Rural Development
- Board Member – Tennessee Valley Technology Corridor
- Former Chairman – National Institute for Hometown Security
- Recipient of LISC Leadership Award

Financial Resources

- ▶ Kentucky Highlands Capital Base
- ▶ Appalachian Capital Corp. (IRP)
- ▶ CDFI and New Markets Tax Credit
- ▶ USDA – B & I Lender
- ▶ SBA Micro Loan Program
- ▶ Empowerment Zone
- ▶ Meritus Ventures (RBIC)
- ▶ Southern Appalachian Fund (NMVC)
- ▶ Mountain Ventures, Inc. (SBIC)
- ▶ Appalachian Development Alliance
- ▶ Rural LISC
- ▶ Foundations – Program Related Investments

Equity Tools for Venture Capital

\$50,000 to \$2,000,000

- ▶ Kentucky Highlands Investment Corporation
- ▶ Mountain Ventures, Inc.
 - Licensed SBIC – Up to \$300,000
- ▶ Southern Appalachian Fund
 - New Market V. C. - \$200,000-\$600,000
- ▶ Meritus Ventures
 - RBIC - \$200,000 - \$2 million

Financing Strategies

- ▶ Equity
 - Convertible Preferred
 - Common
- ▶ Subordinated Debt with Equity upside
- ▶ Senior Secured Debt
 - Term
 - Current Asset Financing – Lines of Credit
- ▶ Straight Subordinated Debt

Other Strategies

- ▶ Packaging – Capital Structure
- ▶ Industrial Recruitment
- ▶ Real Estate
 - Office Building
 - (3) Plants 150,000 sq ft
- ▶ Turnarounds (Necessity)
- ▶ Research & Development
- ▶ Local Markets

Types of Deals

- ◆ Medical Services
- ◆ Data Conversation
- ◆ Communications
- ◆ Defense Contracting
- ◆ Food Industry
- ◆ Homeland Security
- ◆ Software
- ◆ Houseboat Mfg.
- ◆ Trucking Industry
- ◆ Automotive
- ◆ Hospitality
- ◆ Adult Day Care
- ◆ Wood Products
- ◆ Agriculture

Business Plan Strategy

- ▶ Teach How to Prepare
 - Good Entrepreneur – Incomplete Team
- ▶ Due Diligence
 - People – People – People
 - Business Due Diligence
- ▶ Industry
- ▶ Company
- ▶ Marketing Plan
- ▶ Sales Plan
- ▶ Management Team

RESULTS

- ▶ Invested in Excess of \$145 Million
- ▶ Provided Financing for 426 Businesses
- ▶ Helped created 10,400 Jobs
- ▶ Produced Goods and Services valued at \$ 5.7 Billion
- ▶ Paid \$ 1.6 Billion in Salaries & Wages
- ▶ Produced an Estimated Tax Revenue \$ 300 Million



Kentucky Highlands Empowerment Zone



Empowerment Zone Background

- ▶ Total Award - \$40 million on December 21, 1994
- ▶ \$20 million managed by KHIC - \$20 million Locally
- ▶ Consisted of two entire counties and part of a third
- ▶ Budgeted \$16 million for Loan Funds - \$4 million for Administration and \$20 million for Community Development
- ▶ KHIC served as Lead Entity (project manager) with each county having their own non-profit with Staff
- ▶ Project included \$700,000/10 years for Entrepreneurship Training Program

Empowerment Zone Results

- ▶ Population Increase by 11.9% compared to State increase of 9.7%
- ▶ Poverty Decrease at twice the State rate, from 35.2% to 26.1%
- ▶ During 10-year period to December 2004, total employment has increased by 6,108 or 39.8% compared to State growth of 10.1%
- ▶ Development Venture Fund has invested more than \$11.8 million in local business
- ▶ More than 200 farm loans
- ▶ Two new schools, new youth center, 2 libraries, extensive water & sewer upgrades, 3 industrial parks, and numerous health care improvements

Jackson County Entrepreneurship Center

- ▶ Mission was to train individuals on how to start or not to start a business
- ▶ Program funded for 10-years at \$700,000
- ▶ Managed by Eastern Kentucky University
- ▶ Maintained a full-time staff and office
- ▶ Offered two 12-week sessions for 12-15 residents
- ▶ 160 clients completed the program
- ▶ 58 individuals (36%) started businesses
- ▶ These ventures employ 90 residents
- ▶ 90% of businesses launched are still operating