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 create 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