Stage Flexibility Rationale

Many of the commodity, agricultural, food, and green energy (CAFÉ) sectors have an **industry structure that significantly impacts the investment environment**:

- many earlier stage technologies with poorly developed business models
- a limited number of middle market firms
- a few strategic players in most sectors

As a result of this structure, many **early to mid stage technologies are starved for capital and business development skills**. Later stage firms with proven business concepts attract strong strategic interest in addition to PE firms, **driving up purchase multiples**. The challenge for outside capital in CAFÉ sectors is that investing requires a **high level of domain expertise as well as significant business building skills** in addition to capital. This trend has only intensified as a relative shortage of VC capital compared to PE capital has resulted in more VC firm focus on later stage businesses or at a minimum funding only those mid-stage businesses with a well developed model:

Key Tasks	• Patents & Licenses • Proof of Concept • Core Strategy	• Brand Strategy • Mgmt Team • Channel Strategy • Pricing/Value Capture	• Sales Team • Expansion & Growth • Marketing • Acquisitions
Stage (Capital Needed)	**Seed - Startup (< $1 mm)**	**Business Building ($1-4 mm)**	**Business Growth ($4 mm +)**
Capital Sources	• Family & Friends • Business Incubators • State Econ Dev Funds • Federal Grants	• “Valley of Death” • Shortage of Capital • Traditional VC • Limited Bank Interest	• Recent Venture Capital • Traditional Private Equity • Strategic Acquirers

In our view this makes a **sector-specific but stage-flexible approach the most desirable**.

Succeeding at earlier stages also requires a “deeper bench” of industry expertise than that pursued by traditional generalist private equity or venture capital firms, who tend to have limited industry expertise but significant transaction and capital markets expertise.

For this reason MacroGain Partners has identified **Sector Partners in sectors of interest that have deep expertise, broad industry relationships, and the ability to both locate as well as help manage individual businesses** in our target sectors.

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