

FINDING FINANCING

Know where to look when banks aren't an option

Mercedes Austin was a photography and psychology student 23 years ago. She was taking an art class for her sanity's sake, but wasn't planning on it providing a career.

But a sign she regularly drove by advertising a high-end tile company kept catching her eye and one day she stopped. She ended up working there for three years, collecting nothing more than her own tiles as a paycheck the first several months. Then, after attending one of the tile industry's larger trade shows, Austin all of a sudden found a career.

"I went from being an irresponsible kid to seeing this huge possibility in tile," says Austin, who is founder and CEO of Mercury Mosaics. "It was never something I thought I would have any interest in at all. It just kept me up at night."

So, when a significant tax refund came around the same time she got prepaid for a job she'd been hired for, she added that to funds raised by selling her jazz CD collection and she bought her first kiln. At first, she started simple, working on ceramic light switch covers, accent mirrors, one-of-a-kind tabletops and the like. She'd put them in consignment shops in Minneapolis, where there is no money up front and no system for tracking overall sales, but she was hoping to get noticed.

"That's how I got my start," she says. "One thing led to another, where a client gets delighted about a little thing and they

want to have you do something else, which led to me being a kitchen backsplash designer. Then you get a photo of it and you can say you're a kitchen backsplash adviser."

Growth brings success and struggles

Austin grew the business little by little. She focused on residential projects through 2010, then got noticed by a prominent commercial client and started doing the same. She'd do well on one job, get noticed by another client and, very intentionally, she was growing her business.

In 2015, she started refining her product offerings, focusing on three shapes and 20 colors, down from 130. That ended up being successful and she started looking at funding for expansion. Initially, she hoped to expand where she was located, but she'd also moved her administrative offices to a work sharing location, so that didn't work.

"I was intending to add more equipment there," she says. "It was a very intelligent plan, but it wasn't thinking as big as it was going to get."

She sought bank financing and was initially approved, but as the legal issues dragged on, the bank option disappeared. Enter Lesley Farmer, who does business development for KLC Financial, a capital equipment financing and leasing company. Despite a recent knee injury, Farmer went out to the company's Minneapolis offices, met Austin and hit it off quickly. It helped,

BY ANDREW TELLIJOHN
photographs by tom dunn

Mercury Mosaics used financing from a capital equipment lender, KLC Financial, to find new space that allowed it to expand rapidly.



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Austin says, that the response was fast — after several months of back-and-forth with the banker.

Farmer looked at Mercury Mosaics' financial documents, learned about the business, met the employees ... and signed her up. It took about an hour. KLC funds a fair number of business expansions. The company also has funded everything from website development to trucks to trampolines, she says.

"It's really anything that a business could use that is going to provide them a benefit that has a capital tie to it," Farmer says. "It's not just people who are struggling."

What is different, Farmer says, is that KLC isn't regulated, which allows the company a bit more flexibility in how it assesses businesses than banks have. Banks, Farmer says, look at financing a piece of equipment once they have 20 percent down and the right cash flow ratios. With KLC it's more of a collateral-based transaction. Character also is important — if someone has a good business but doesn't have good character, there's a risk they may not pay even if they do well, Farmer says.

"We think differently about how we price deals," she says. "I go spend time with them. ... I saw her, I saw her business, I saw

the people she had employed there, her growth potential and we were able to overcome."

Farmer wants to build a relationship with her clients.

"We really try to make sure the clients we are working with are people who, at the end of the day, I can call my friend," Farmer says. Austin remains a fan.

"I am forever indebted to KLC," she adds.

Asset-based lending

Along similar lines, Aspen Research found a successful financial partner in North Mill Capital, which focuses on invoice-based or asset-based lending.

Aspen had been around for decades as the research and development arm of Andersen Windows. The business unit created the Fibrex material used in its parent company's Renewal by Andersen product. It has two units: One involves testing plastics and metals for the medical device industry and food contact specialists in plastics and metals. The other is the development and manufacturing of custom compounds for the plastics industry, with a special emphasis on bioplastics called PLA.

"We've been developing bioplastic solutions for different applications for the last six or seven years," says Rick Burnton, who led an investor group that bought Aspen from Andersen in 2012.

The company had \$5.5 million in revenue in 2019 and projects to \$6 million this year, but he says the company is on the brink of finalizing the production and commercializing a new bioplastic material that could help replace polystyrenes and PVCs, plastic materials which are petroleum-based resins that work really well but have toxicity issues.

"It's very hard to hit the characteristics you need in order to supplement and change over to a new material from the current ones," he says. "The current materials are flexible and cheap and they do an amazing job, but there are environmental impacts that go along with them. In today's world that's becoming a bigger issue."

If Aspen arrives at the finish line first — Burnton says they hope to have their first products on the market this year — the upside is potentially nine-figure huge for the company. Retail customers currently are clamoring for a bio-model. "That's our goal," he says. "That's what we've been working on for the last eight years."

North Mill has allowed Aspen to use asset-based lending to fund its receivables over the last couple years. The process is simple and straightforward.

"They've been a good partner for us," he says. "It's been a hard stretch for us to get to commercialization, but we're just about there."

North Mill provides short-term help

Kristen Erickson, senior vice president with North Mill Capital, says the company tries to help businesses that aren't cur-



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rently bankable, through invoice-based or asset-based lending. Where banks are largely focused on historical cash flow, she says North Mill focuses on the ability to convert collateral to cash for repayment.

The company might lend to a start-up, a company that has grown really quickly or one that is distressed. And the relationships are typically short, occasionally around six months but more typically a year or two, and involve helping them through fast growth or a time of distress.

The relationship can involve providing hands-on support for business owners in addition to the working capital. That could mean providing help with credit limits for customers or in making collection calls, introducing them to a consultant who can help with cash flow projections or renegotiating terms with vendors.

“Our goal is to get them to be bankable,” she says. “We’re helping them develop that track record they need in order to be bankable.”

The financing is more expensive than what traditional banks offer. Some will stay anyway because of the side services North Mill offers, Erickson says, but most move on when they can, though they often do so with more discipline and a sharper business sense.

“Most borrowers are looking to lower their cost of financing over time,” she says. “That’s why they’re not with us forever.”

Further alternatives exist

So, don’t give up if your first attempts at finding financing don’t succeed. There are ample sources available to businesses that can make a strong case. Don’t forget about economic development options, as well.

All has worked out well for Mercury Mosaics since it found the capital it needed for the first expansion — a fabulous space that Austin says has tons of natural light and alone acts as an employee retention tool. She’s now growing fast and on to another project and economic development perks helped her get there. Several municipalities were interested in the project. Three greater Minnesota cities were finalists after 16 initially bid. More than 60 communicated interest.

The company will soon build a warehouse in Wadena, about three hours from its current space in Minneapolis. Wadena was selected from a handful of communities that offered up packages to try and lure the company.

Justin Erickson, a principal with Essex Capital LLC, which owns the Community Venture Network (CVN). CVN has been helping small- and mid-sized businesses explore locations across the Midwest since 1991. He says communities tend to be competitive and want to attract businesses to grow. It takes a little time to put incentive programs together, which businesses need to be mindful of, Erickson says.

“If expansion is something a company is even contemplat-



Alternative sources of financing have helped Mercury Mosaics expand twice. **Opposite:** Founder Mercedes Austin worked with Lesley Farmer of KLC Financial to arrange financing for her first expansion and economic development sources on her second.

ing in the early stages, it’s time to start the conversation on the economic development side,” Erickson says, adding that the market is generally good right now and a trip to talk with local municipal or economic development officials in the area where the company wants to be can help get business owners started.

Mercury Mosaics’ Austin is happy with the results. The bidding communities really made her feel welcome.

“I’m not an Amazon or Google. So, I don’t register on anyone’s radar in Minneapolis,” she says. “Out there, I feel like I might as well be Michael Douglas arriving in town. They treat you like a Hollywood celebrity.”