CYPRESS GROWTH CAPITAL PROVIDES ROYALTY FINANCING,
AN INNOVATIVE NEW SOURCE OF FUNDING FOR EMERGING COMPANIES

Frequently Asked Questions

Who is Cypress Growth Capital?

Cypress Growth Capital, LLC is an investment firm providing growth capital to emerging and expansion stage companies in the Southwest. Our firm makes investments using an innovative royalty financing approach pioneered by our Senior Advisor, Arthur Fox. Royalty financing provides entrepreneurs and business owners with an attractive alternative to traditional equity and debt instruments. Our principals are knowledgeable, experienced and successful entrepreneurs and operating executives.

We invest primarily in technology-enabled business services, software and information-based companies. We are one of the largest and most active royalty financing firms in the United States.

What size investments does Cypress Growth Capital make?

We invest between $1,000,000 and $8,000,000 per portfolio company. The capital can be deployed in tranches.

How does royalty financing work?

Our form of royalty financing provides growth capital in exchange for a percentage of a company's future revenues. The royalty is paid monthly and is based on a fixed percentage (the "royalty rate") of the company's monthly sales. Royalty payments continue until their total reaches a cap (the "royalty cap"), expressed as a multiple of the investment. Unlike traditional loans, there is no interest rate or fixed loan period. The actual dollar amount paid each month fluctuates with revenue performance, providing a more flexible and adaptive payment structure than other debt instruments.

How is the royalty rate determined?

A number of factors are considered when determining the monthly royalty rate, including the investment amount, the size of the business, the company's expected long term growth and other quantitative and qualitative indicators.

How long do we have to pay the royalty?

The royalty obligation ends when we receive a total sum equal to a multiple of the investment (the "royalty cap").

How does royalty financing compare to traditional debt financing?

Cypress Growth Capital supports our portfolio companies having access to traditional sources of debt financing so that they maintain the necessary working capital to effectively manage and run their businesses day-to-day. We structure our royalty investment to be compatible with these sources of working capital.

However, lending organizations generally do not provide true growth capital to emerging businesses. Cypress Growth Capital does. Our larger investment amounts, $1,000,000 to $8,000,000, are best suited to major expansion initiatives, over and above working capital needs.

Unlike traditional term loans, our payments are variable, flexing with the performance of the business. There is no interest rate or fixed loan period. We have very few covenants and default provisions. We do not require personal guarantees. Royalty financing is truly patient capital and is always aligned with the interests of the entrepreneur.

How does royalty financing compare to equity financing?

Unlike an equity investor's position, our profits are capped. An equity investment is almost always more expensive to the successful entrepreneur compared to a royalty investment. The equity investor is frequently looking for a return of ten to twenty times their investment. In addition, the entrepreneur may lose a controlling interest in their company. Compared to the cost of equity, royalty financing can be an affordable and prudent form of growth capital.

Is royalty financing compatible with existing or future equity investments?

Yes. Existing equity investors view royalty financing very favorably, for three reasons: one, their interest in the company is not diluted; two, they are not asked to invest additional capital to prevent being “crammed down”; and three, a significant growth capital investment strengthens the company and therefore their investment.

Entrepreneurs planning future equity rounds can also view royalty financing positively. In many cases, the business owner needs growth capital now, but the company’s valuation is sub-optimal. An interim, non-dilutive royalty financing growth investment, well deployed, will move the company to a more optimal, less dilutive future valuation.

What are the basic qualifying criteria?

We look for companies with annual revenue between $3,000,000 and $25,000,000, at least a two-year operating history and positive EBITDA. We invest in technology-enabled business services, software and information-based companies in the Southwest United States. Unlike an equity investment, extraordinary growth projections and market opportunity are not required. Further, Cypress Growth Capital’s investment success is not dependent on an exit event, e.g. a sale of the company or a public stock offering.

How can I learn more?

Please tell us more about your company **here.** One of our professionals will review the information and respond either by email or by phone.