

Venture Merchant Banking: Innovative Financing Solutions and Working Capital for Small Business Clients

Case Study: Kayon Corporation, a globally-inspired women's apparel firm

Kayon Corporation is a wholesale and retail ladies apparel company with well-known, established brands and global operations. The firm has been in business for more than 30 years with varying degrees of success over the years. The firm's president routinely travels the world to find fabrics that best represent her brands with manufacturing operations of knits in Peru, cottons and linens in China, India and Hong Kong.

Capstone Business Credit, based in New York City, has been helping companies in various stages of financial stress for more than 15 years. In fact, the firm specializes in funding firms that most traditional asset-based lenders will not even consider. Why? Most asset-based lenders will fund firms based solely on balance sheets. Capstone, while using some asset-based lending techniques, funds the future sales and growth potential of clients.

'Cash Crunch' from Successful Business

In fall of 2005, Kayon's president and sole shareholder, Kathryn Peters, was introduced to Capstone through an investment banker. At that time, Ms. Peter's had invested more than \$1,000,000 of capital into the brands Putamayo — as featured on *Seinfeld* — Whitewash, and the recently launched division of Kayon, S.H.A.G. (Sexy, Hip and Gorgeous). Even with the infusion of capital, Peters was having difficulty supporting the continued growth of the company's brands. The 2005 winter season was marked by shipments held up by offshore suppliers waiting for LC's to be issued or wire transfers prior to shipping to the United States. The lack of working capital to fund the letters of credit and wire transfers resulted in late deliveries to the company's trade accounts and order cancellations.

The company's poor performance had a negative impact on the Spring 2006 line. Many of the factories were reticent to begin manufacturing without receiving payment for the fall shipments and many of the company's customers did not want to budget purchases to Kayon because they felt they had little chance of receiving the spring line in a timely fashion.

Venture Merchant Banking Model: Supports Company Growth

In January of 2006, Kayon closed a \$13.5 million purchase order/trade finance facility and factoring facility with Capstone Business Credit, LLC, a New York City based venture merchant banking operation. The relationship with Capstone enabled Kayon to issue letters of credit for the spring and fall 2006 lines, and with Capstone's support, Kayon was able to negotiate payment plans with all of its factories for goods that had not been paid for since the summer of 2005. The letters of credit were issued for pre-sold goods and Capstone provided cash advances for working capital to support the company's growth. Working capital was provided so the fall 2006 and spring 2007 lines could be new, interesting and attractive to Kayon's customers.

To date, the company is on track to increase its sales in 2007 by more than \$1,000,000. It has delivered all of its goods to its customers on time and by the buyer's delivery dates. Kayon is working on a private label program with one of the world's premier retail chains, which will provide Kayon with an increase in sales at a time of year when their boutique customer is typically not purchasing the company's goods.

This new opportunity was created by Capstone through relationships it has with the retailer and Capstone will also assist with sourcing the goods for this program so Kayon and the retailer are able to attain their targeted gross margin requirements. This was made possible through the relationship with Capstone because Capstone is one of the only vertically integrated merchant banks that can source goods, finance them for the entire 180 to 150 day trade cycle and provide logistics support for their client's orders. The trade cycle begins at the time the goods are ordered in Asia, Europe or South America and ceases when the accounts receivable is paid by the account debtor and collected by Capstone.

Global Relationships

"The 'cash crunch' felt by many successful firms across a wide-range of industries is real," explains Joseph Ingrassia, managing member of Capstone Business Credit. "We help map out a financial structure that allows clients to accept growth while continuing to service existing customers. Another opportunity we make available to our clients, is to utilize our manufacturing and distribution relationships around the world to either establish new global operations or improve on existing arrangements. When our clients take advantage of these opportunities, it results in either higher gross margins or higher quality goods at the same cost."

Kayon's future is bright now that it has a reliable source of capital capable of supporting its growth and an ever-growing customer base eagerly awaiting its cutting-edge designs and high-quality apparel products. As Ms. Peters explains, "We went from a regional firm to a global enterprise almost overnight. Capstone has provided us with the financial structure that allows us to keep up with our growth and efficiently run our businesses."

Author

Joseph Ingrassia is managing member of Capstone Business Credit, a privately-held, venture merchant banking firm that provides structured financing to developmental stage companies with typical sales of less than \$100 million. Clients are involved in the domestic and international trade of finished consumer and industrial products. For more information, visit www.capstonetrade.com

