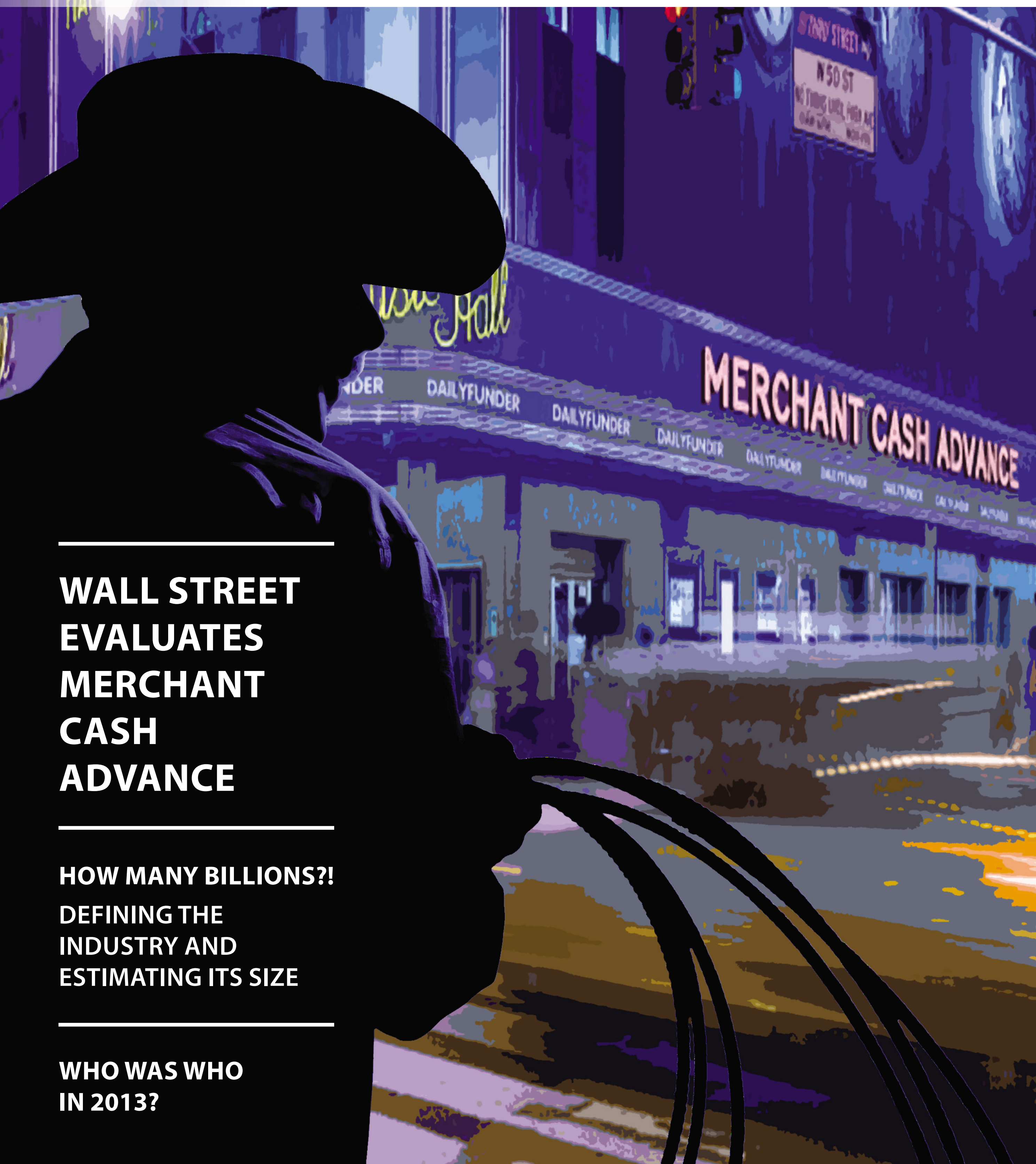
JANUARY 2014 | ISSUE 1

DAILYFUNDER



WALL STREET EVALUATES MERCHANT CASH ADVANCE

HOW MANY BILLIONS?!

DEFINING THE INDUSTRY AND ESTIMATING ITS SIZE

WHO WAS WHO IN 2013?

UNITED CAPITAL
SOURCE

We are **your** business funding **specialists.**

Call today or visit us online
for your free consultation!

www.unitedcapitalsource.com

(855) WE-FUND-U
(855) 933-8638

✓ Merchant Cash Advances
✓ Business Loans
(fixed payment and term)
✓ Business Lines of Credit

Receive up to $2 million in 72 hours:

- Terms 3 - 18 months
- Prepayment options available
- Dedicated renewals specialists
- Online account access
- Receive funding in as little as 3-5 business days
- Dedicated funding coordinator for each merchant
- Lowest rates industry wide for qualified merchants
- United Capital Payments division specializing in credit card processing and POS Systems

United Capital Source
371 Merrick Rd.
Suite 305
Rockville Centre, NY 11570

www.unitedcapitalsource.com

Phone (855) 933-8638
Fax (888) 383-2892
Email info@unitedcapitalsource.com

Funding the Unbankable
Send us your DECLINED & HIGH RISK DEALS
YELLOWSTONE CAPITAL
YOUR BUSINESS LOAN ALTERNATIVE
855-972-2748
iso.yellowstonecap.com

Table of Contents

JANUARY 2014 | ISSUE 1

Featured Story

JANUARY 2014 | ISSUE 1

PUBLISHERS
Sean Murray

EDITOR-IN-CHIEF
Sean Murray

GRAPHIC DESIGNER
Chris Beveridge

NATIONAL SALES DIRECTOR
Jayson Rush
212-804-7011

DailyFunder™ is a publication of Daily Funder, LLC

Sean Murray, Publisher

For advertising information or general inquiries, email sales@dailyfunder.com.

ARE YOU READY?

The time has come for a magazine dedicated to the men and women that fund small businesses daily. Whether it's lending money or buying future revenues, DailyFunder aims to cover an industry that seems to reinvent itself ever year. Banks aren't lending, but so what? There are hundreds or perhaps even thousands of private companies out there filling the gap. Technology, creativity, and intuition are making deals that once seemed impossible, possible. So whether the need is a few thousand dollars or a million, small businesses have options like they never have before.

But who's keeping score? For too long, this industry has been a footnote in payment processing and technology trade journals. Somehow a multi-billion dollar a year market has struggled to tell its own story. How did it start? Where is it going? Who's in it? Why do certain events matter? DailyFunder will try to serve as a voice for the small business lending and merchant cash advance financing community. To those that are already a part of our growing online social network at dailyfunder.com, we hope this does you justice. And to those just learning about us for the first time, hold on to your hats and put on your funding pants, because we promise this industry is full of adventure.

BY SEAN MURRAY

I'm particularly excited for this first ever issue of DailyFunder. Many of you may know me already as the man behind Merchant Processing Resource, an online blog dedicated to the merchant cash advance industry since 2010.

For a long time merchant cash advance was the industry that nobody talked about. It was eerie to surf the Internet and find nothing other than a list of toll free numbers to call for immediate working capital. Who were these companies? How did their funding programs really work? And more importantly, who was behind them? I suspected that many people had these questions and I set out to provide some simple answers where anyone looking could find them.

I got my first start in the merchant cash advance business in 2006. That seems like a lifetime ago. It was before the Great Recession, the ACH repayment boom, starter advances, and technology assisted underwriting. It was before AdvanceMe had their patent on split-processing invalidated. It was a different era. Today the industry is much larger, much more dynamic, and competitive. Merchant cash advance is just one piece of the pie. DailyFunder will seek to cover everything related to non-bank business financing. What are the latest developments? How many deals are being funded? I suspect that in 2014 and beyond, people are going to be asking these questions and when they do, there should be a resource to turn to. This magazine will be the authoritative source for industry information. We invite you all to contribute.

WALL STREET EVALUATES MERCHANT CASH ADVANCE

Merchant cash advance companies are generating a lot of buzz with investment bankers, private equity firms, and venture capitalists. Are they just browsing?

By Michael Giusti

The acquisition of RapidAdvance by private equity firm Rockbridge Growth Equity earlier this year turned the national spotlight onto the merchant cash advance industry.

The high valuation of the RapidAdvance deal particularly raised eyebrows, causing many industry observers to say that the splintered MCA industry may now be ripe for consolidation through mergers, acquisitions and a cascade of similar deals.

"The merchant cash advance space is an area of increasing focus, both for private equity and for bankers who are familiar with the sector," said Jason Gurandiano, a managing director and head of global financial technology investment banking for Deutsche Bank.

But others warn that unless MCA companies find more predictable funding sources, further professionalize their processes, and invest more in technology and business fundamentals, that the RapidAdvance deal may be more of a one-off than a harbinger of things to come.

What's in a deal

The sale of RapidAdvance was announced in the 3rd quarter of 2013. And though the terms of the sale were not disclosed, the sale was reportedly based on an enterprise valuation of more than $100 million.

"Rapid is a sign that, in many ways, some very smart money is coming into the sector," said Dave Cox, managing director in charge for New York-based investment banking advisory firm Evercore Partners.

Detroit-based Rockbridge Growth Equity LLC is headed by Dan Gilbert, best known as the owner of the Cleveland Cavaliers and chairman of Quicken Loans.

The eye-popping valuation, along with Gilbert's prominent involvement, has sparked many to speculate that other high-dollar deals may be in the works for other leading MCA companies.

"Dan Gilbert's track record with Quicken Loans speaks for itself," Cox said. "When you see someone who is such an important innovator in other areas of lending, you have got to take note."

There are several aspects to MCA firms that make them attractive as potential takeover targets. The obvious first piece is the attractive margins built into the typical cash advance deal.

But beyond those raw numbers, many of the best are also investing heavily into technology. Things like real-time underwriting data, and automated origination are setting the industry's best players apart in ways that just weren't possible a decade ago.

And perhaps the most tempting piece of the MCA puzzle is the gaping hole they are filling that is being left by the lending and banking industries.

The funding gap

The story of the rise of merchant cash advance might also be told as the failure of the small business banking markets.

In the words of many investment banking insiders and industry analysts, many small businesses in the United States are essentially "unbanked."

That is because, for years, and certainly since the 2008 credit crisis, many, if not most U.S. banks have backed away from lending money to the small business community.

Insiders say that today the banks are ignoring merchants who, from a credit perspective, should be attractive to financial institutions who have traditionally lent money to them.

Even the most credit-worthy small businesses that are able to get funding are facing unfavorable terms.

Many businesses must put up collateral dollar-for-dollar, or pay exorbitant fixed costs — meaning if someone wants to borrow $5,000, but then has to pay $5,000 in fees and fixed costs, then the deal just doesn't work. In this environment, only businesses seeking the largest loans can make them work profitably.

That is why so many businesses are now turning to merchant cash advances to fill in that gap.

"They are serving an important and large need," Cox said. "Big banks are set up to serve big businesses best, but little businesses have a real need for capital."

Most small businesses just fly under the radar of the commercial banks.

"A lot of the businesses that get involved in taking merchant cash advances have 500 and 550 FICOs. There is no way they are getting a loan from the bank," said Tom McGovern, vice president for New York-based investment banking firm Cypress Associates.

> "Rapid is a sign that, in many ways, some very smart money is coming into the sector"
>
> —David Cox, *Managing Director Evercore Partners*

Having a low FICO score is typical of small businesses that take on debt and mortgage their personal assets to get their companies off the ground, meaning that the companies that need funding most are now the least likely to be served by the banks.

"When I talk to bank CEOs, the rule is bigger is better," McGovern said.

Large commercial banks are typically raising capital to raise their lending limits ultimately to make larger loans, not smaller loans.

"The result is that you have this unbanked sector that will stay unbanked. And this is the environment that merchant cash advance is serving, and that is why you see the growth over the last two years, and banks don't seem to be coming back," McGovern said. "I could even see that increasing."

Rapid progress

Industry insiders and investment bankers agree that they are bullish on the fundamentals underpinning the growth of the MCA industry. So, does the $100 million valuation of RapidAdvance mean that other blockbuster MCA acquisitions may soon be announced? Not so fast say some industry skeptics.

The naysayers say that there may be some fundamental differences between RapidAdvance and how some other, less reputable MCA firms are set up.

The primary difference RapidAdvance enjoyed was a credit facility through Wells Fargo. That credit line gave Rapid access to inexpensive capital, lowering their overall cost of doing business, and meaning they didn't need to pursue their capital from hedge funds or other parties who were expecting double-digit returns.

Another key difference was their investment in data analytics and technological infrastructure.

The question for MCA firms looking to cash in on the momentum of RapidAdvance's deal appears to be whether they can show they have true enterprise value and business fundamentals, rather than some cash flow and a nice lifestyle business.

Another question is what metrics should be used to come up with a valuation for MCA firms. One temptation is to rely on a multiple of EBITDA, or earnings before interest, tax, depreciation and amortization. And based on that measure, many MCA firms appear to be shining stars.

But critics contend that EBITDA is an improper measure because the interest component is a significant portion of the merchant cash advance cost structure.

For capital-intensive industries, the criticism goes, excluding interest is ignoring a key cost of doing business — kind of like a food company excluding the cost of sugar.

By that way of thinking, basing enterprise value on a multiple of cashflow or even pre-tax profit after interest expense may be a better approach.

Gurandiano said that perhaps the best tool for valuing a merchant cash advance company is growth. "The market is driven by growth," Gurandiano said. "Any company that can exhibit outside growth will attract attention."

That said, even the skeptics agree with the bulls — the MCA space is poised for huge future growth.

Dry powder

One sign pointing to more potential deals within the MCA arena is the huge inflow of institutional money into hedge funds from sources like pension funds, endowments and insurance companies. All those big players are looking for investments that promise steep returns that can outpace typical equities market returns.

"And that money has to be deployed somewhere," McGovern said.

The financial services sector has long been a darling of these institutional investors, but today's environment isn't presenting many investment opportunities into the traditional investment target—banks.

"With banks right now the M&A environment has not been catalyzed as much as it was expected to," McGovern said. "We thought the banks would start rolling up three years ago, and they haven't, and so there has not been as many opportunities to invest in banks as they were in '08-'09 when they needed the capital."

And since banks aren't available as particularly attractive investment vehicles, other opportunities may begin presenting themselves. That has sent many investors looking to specialty finance outfits as a target, but many of those have attracted unwanted attention from state and federal regulators.

"MCA is the best of both worlds – it has a specialty finance aspect to it, but they have been largely able to avoid the scrutiny of the regulators because it has been an advance and not a loan," McGovern said. "It makes it a very attractive target for private equity that has quite a bit of dry powder out there to invest."

Add to that the fact that the industry is still fragmented and made up of many small players, and some of the more savvy investors are licking their lips, especially because the returns earned by MCA are attractive, and for the most part, the businesses are usually very scalable.

Differentiation

So, now the question remains: what made RapidAdvance such an attractive target, and is it replicable by other MCA firms?

Investor and former Goldman Sachs investment banker Steven Mandis bought in to RapidAdvance early on, and he says two of the things that set them apart is that they focused on institutionalizing their business including legal and compliance and audited numbers and focused on data analytics for underwriting and marketing. They also focused on technology, and they focused on going direct to the merchants instead of solely through ISOs. These are significant investments.

Those moves helped to change the perception of the company in a relatively short time, he said. By continuing to professionalize their processes and procedures and adding data analytics and direct marketing, they quickly improved the enterprise value of their company.

McGovern agrees that an investment in technology typically sets the best MCA firms apart from the pack. He said the best firms will have very scalable technology that can automate underwriting as well as various aspects of origination and due diligence.

McGovern also said he prefers seeing firms that are using ACH in addition to credit cards.

Gurandiano agrees that strong investment in technology helps differentiate one merchant cash advance company from the rest.

"There is a universe of players who are relatively undistinguished from a growth perspective and a technology perspective, and they are all spoken about in one breath," Gurandiano said. He added that the outliers are the ones that are doing something different, such as looking for new distribution channels or using technology in a creative way.

For example, Gurandiano said he would be interested if merchant cash advance companies were using social media and technology, not just for marketing, but also to monitor their potential clients.

"Using technology to come up with a better picture of credit quality of the merchant is important—monitor the merchants, and not just their debit and credit purchases, but also using leading indicators that would provide insight into the overall health of the business – whether it is pulling up their UPS feed to see how much they are shipping, for example," Gurandiano said.

Finding alternative distribution chains, and not just relying on ISOs to promote cash advance products to merchants, is also a strong differentiator, Gurandiano said.

"The general knock on merchant cash advance has been that they are an ISO-centric model," Gurandiano said. "Merchant cash advance was a rounding error that added to a typical sale of credit card processing."

Gurandiano said that the problem with that model was that a different underwriting process is needed for businesses getting merchant accounts, and getting a cash advance. But the bottom line is that regardless of the other fundamentals, a good MCA firm must also show strong profitability, McGovern said.

"If someone is profitable within a year, OK. But if we are looking at a year, and we are still not at positive EBITDA, this might not be the time for a capital raise," McGovern said. At a minimum, strong cash flow is a must.

"Private Equity guys really focus on cash flow," McGovern said.

All the insiders agree that a true investment in technology is essential – and it needs to be much more than just a basic website.

An example of what potential investors may be looking for would be automated underwriting. Can you push a button and tell whether a particular Subway franchise in Florida that has been in business for three years is a better risk than a Subway franchise in Chicago that has been in business for two years? What are their default rates?

> "The general knock on merchant cash advance has been that they are an ISO-centric model."
>
> —Jason Gurandiano, *Managing Head of Global Financial Technology, Deutsche Bank*

Analysts say that if you can't tell which is a better risk by pushing a button, rather than just going by intuition, then you don't have the technology platform required to move on to the next level of funding.

The other shoe

Most people agree that one way or another, consolidation of MCA firms is inevitable. One possible route is going to be through mergers and acquisitions – with some more blockbuster deals inevitably shaking out.

"I could see more deals going down, sure. The number of merchant cash advance companies out there has tripled in the last year from 50 to 150 today," McGovern said. " There is still plenty of money chasing deals."

But analysts say the market is going to thin out in other ways, too. With technology playing such an important role, the leaders with the most scalable platforms will likely distance themselves from the less tech-savvy companies, capturing their market share in the process.

"Technology is creating a real opportunity to reinvent this industry," Cox said.

Want to comment on this article? Share your thoughts on the industry forum at dailyfunder.com

Is the industry *wild?*

Journalists and insiders often refer to merchant cash advance and the rising alternative business lending industry as the wild west.

Taming The *Wild* Frontier
ISO&Agent
November/December 2013

Cash Advance is Coming of Age
(References *cowboys*)
ISO&Agent
November 6, 2013

The *Wild* World of Merchant Cash Advance
Commercial Factor
July/August 2012

Merchant Cash Advance Industry Operates in Regulatory *Wild West*
Washington Business Journal
July 26, 2010

How to Vet a Merchant Cash Advance Provider
(References *wild cowboys*)
BloombergBusinessweek
January 30, 2009

A FRIENDLY COMPETITION FOR A GOOD CAUSE

Last month concluded the 2nd annual alternative business financing fantasy football competition that was co-hosted by DailyFunder and Gainesville, FL-based Merchant Cash Group.

This year's champions were Business Financial Services and Financial Advantage Group but the real winners were two non-profit organizations that didn't have to worry about lineups, matchups, injuries or luck this season. That's because participants chipped in towards a prize exclusively reserved for charity.

A little competitiveness went a long way in 2013 as the league raised a total of $9,000. Subsequently Business Financial Services, the winner of League A designated their half of the winnings to be donated to Wounded Warrior Project. Financial Advantage Group, the winner of League B asked that their half be donated to The Spring of Tampa Bay.

Fostering the growth of small businesses and communities is the foundation upon which this industry is built, but good character really shows when these companies continue that initiative outside of the office. Fantasy football competitions are usually the time when folks leave work behind and let their hair down. In the previous 2012 season, it wasn't long before participants lobbied for the competition to serve a purpose. That winner-take-all season ultimately resulted in a $7,100 donation being made to the ALS Association thanks to NYC-based Sure Payment Solutions.

Business Financial Services and Financial Advantage Group have both told us the competition was a lot of fun. Would they do it again? They both say Absolutely!

The next showdown is in the fall of 2014. Start preparing now!

Special Thanks to the following 2013 fantasy football contributors:

Integrity Payment Systems
Business Financial Services
Snap Advances
Financial Advantage Group
Entrust Merchant Solutions
NVMS
United Capital Source
Pearl Capital
Sure Payment Solutions
Strategic Funding Source
Yellowstone Capital
Benchmark Merchant Solutions
Merchant Cash Group
Capital Stack
Raharney Capital
DailyFunder

THE EVOLUTION OF CASH ADVANCES

It's not 2008 anymore

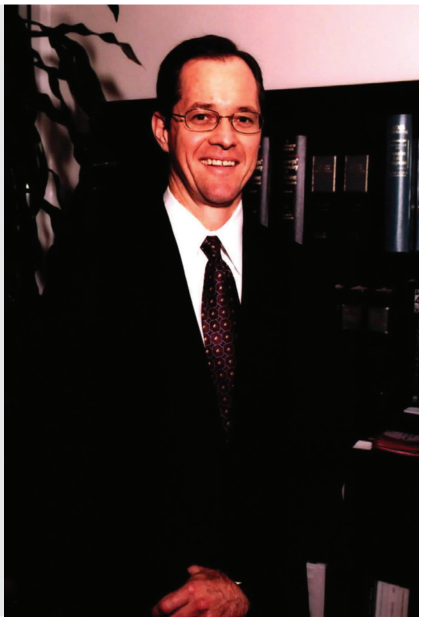
By Paul A. Rianda, Esq.

Over the years, the way that cash advances to merchants have been funded and collected has changed. Below I will review the way the industry has changed and discuss some of the implications of those changes.

The Pure Cash Advance

In the beginning, the cash advance model was closely linked to the credit card processing of the merchants. Most companies only provided cash advances to merchants that could show a steady flow of credit and debit card receipts. The cash advance was repaid by way of split funding of the merchant's payment processing. By that I mean the credit card processor would pay a certain percentage (usually less than 10%) of the merchant's credit card processing receipts to the company that provided the cash advance with the balance paid to the merchant. This was usually accomplished by way of a redirection letter signed by the merchant and presented to the merchant's processor directing how the funds were to be distributed.

The documents for these types of transactions were usually similar looking to those used in providing a loan to a merchant. The cash advance agreement was typically fairly long and included provisions like a personal guarantee and security pro visions including calling for a UCC-1 filing. As to the personal guarantee, most of the things that triggered it were really actions that amounted to fraud such as getting the cash advance and then switching to another payment processor in a couple of weeks to avoid having to repay the advance.



Possibly partly because of the similarity in the merchant advance agreement to loan documents, a number of lawsuits were filed by a San Diego law firm here in federal court Orange County, California. The lawsuits alleged that the cash advances were really disguised loans and hence violated the usury laws. A number of the lawsuits were settled for considerable amounts of money.

The Evolution

The first reaction of many companies in the cash advance business to these lawsuits was to simplify their cash advance agreements. Gone or severely limited were the personal guarantee provisions. As I stated above, maybe they are not really needed anyway given the fact that you could sue the owners of the merchants for fraud in most cases. Gone too were the long agreements. The new agreements were shorter, simpler to read and understand and did not have all the security provisions like a loan document. The upshot was the given that the characteristics of a loan were removed, the companies would have a better argument that it was not a loan disguised as something else.

But, the reliance on the need for split funding with a third party processor continued and necessarily limited companies in the space. They did not have control over the merchant's funds so there was inevitably some additional risk. Some companies solved that problem by becoming independent sales organizations with control over the merchant's funds. But others could not justify the expenditure or just did not want to get into that business. So what was the solution? Automated clearing house (ACH) transactions.

The New ACH Age

Using ACH transactions to take money out of the merchants' bank account changed the game. Now, the merchant's processor did not have to be involved. The merchant gives its consent to the cash advance company to periodically take cash from the merchant's bank account. So, if you were a purist, the cash advance company would on a daily basis look at the merchant's credit card receipts and deduct the correct amount based on the applicable percentage from the merchants' bank account. It was a little more risky in that the merchant could change the bank account but that risk is seen by many to be reasonable.

But how often to take money out of the bank account and how much became an issue. It is very labor intensive to look at a merchant's processing every day so some started to do weekly or less frequent withdrawals. But that still is a lot of effort. So some people decided that they would estimate the amount that should be taken out weekly or daily and then just automatically take out that amount of cash from the merchant's bank account. But that meant to actually take out the stated percentage, there had to be a true up on a monthly basis. By that I mean the actual amount collected based on the estimates had to be compared with what should have been taken out based on the percentage of the merchants processing that should have been collected.

However, I found that some people just took out the estimated amount only and did not true up. But if you were doing that for credit card processing, why not do it for all the merchants' revenue? That way, you would be able to provide larger advances to merchants. You would also be able to provide cash advances to merchants that collected little if any revenue by credit card. In effect, the ACH method increased the number of merchants that can get a cash advance.

But all this still leaves open the question of those lawsuits. The further you go away from the pure cash advance the more likely some lawyer is going to argue it is just a disguised loan. So on one end of the spectrum if you provide a cash advance with a simple agreement, split funding only credit card processing proceeds, provide for no personal guarantee, record no security interest and largely keep away from suing merchants, arguably you will decrease the risk of getting sued. But if you ACH money from the merchant with no direct relationship to the processing volumes, require a personal guarantee and file a security interest and aggressively sue merchants' that default, you might find yourself more likely to get sued for usury. It is just a matter of your appetite for risk as to where you want to end up on that spectrum.

---

* Paul A. Rianda, Esq. is an attorney who has specialized in providing legal advice to the cash advance and bankcard industries for over 15 years. For more information about this article or any other matters, please contact Mr. Rianda at (949) 261-7700 or via email at paul@riandalaw.com

** The information contained herein is for informational purposes only and should not be relied upon in reaching a conclusion in a particular area. The legal principles discussed herein were accurate at the time this article was authored but are subject to change. Please consult an attorney before making a decision using only the information provided in this article.

On The Record

On December 5th, 2013 the CEO of Peer-to-Peer lender, Lending Club, used the term 'merchant cash advance' in his testimony before a committe of the House of Representatives. It was a hearing to examine the current state of lending for small businesses.

The event marked the first time the term had been officially used on Capitol Hill. While there was no ensuing discussion regarding merchant cash advances specifically, House members did ask Laplanche what the government could do to keep underwriting costs down for alternative business lenders.

His response included a request for easy access to IRS tax information on small businesses.

Lending Club is reportedly entering the business lending market and there is speculation they will go public in 2014.

INDUSTRY ETIQUETTE

You just might be doing email wrong

By The Etiquette Insider

The famous phrase "Lipstick on a Pig" is a vain attempt at making something appear better than it really is. Etiquette is that "lipstick" in the business world. The successful practice and use of etiquette can provide a level playing field no matter your educational background, economic standing, or your position within a company.

Etiquette by definition is "the conventional but unwritten code of practice followed by members of any certain professions or groups." I am glad to take on the initiative of providing our industry with the tools and guidelines it needs to maintain a state of professionalism with a little humor, of course.

It takes great discipline to maintain a professional persona within our daily interactions and correspondences, especially when our personal relationships overlap with our business relationships. It is my role to help you navigate through your day-to-day business transactions in a manner that will place your company and yourself in a more professional light and allow you to gain respect among your peers. I have chosen to stay anonymous in this column for multiple reasons, but the primary reason is that I would prefer to keep an honest interaction with you, the readers of DailyFunder, and do not want you to shy away from asking questions.

Since this is the first edition of the DailyFunder, I will be picking out my own topic and one that contains some of the most grievous etiquette mistakes. Drum roll please (pdat, pdat, pdat…….)—email correspondence. Yes, you may groan at that and rightfully so, as it is how we conduct 80% of our correspondences. Some of our first introductions to other individuals often happens through email. The biggest problem with emails is that once you hit send, it is forever; virtual immortality. Whether the email is an interoffice communication, customer service response, marketing campaign, relationship building opportunity, or appointment setting, an email can be your superhero or your villain and the thin line that separates the two is your wherewithal of etiquette and professionalism. By not restricting yourself to certain parameters in every email you draft, you could be creating your own kryptonite in your relationships with potential clients and your peers. I have created a list of DOs and DON'Ts that can be carried out in our industry and hopefully with practice will be transferred to other areas of communication.

As stated, these are guidelines and while some of them are provided with a little bit of humor you should always keep in mind the three main points to keep your correspondence in line: Professionalism, Efficiency, and Protection. If the email you are sending does not encompass the three points above then it is not an email you need to send.

I would like to keep the future formats of "Lipstick on a Pig" in a Q & A format so please feel free to contact me at etiquetteinsider@dailyfunder.com with any of your questions or comments. I will respond in a timely manner, and some of those responses will be featured in the future issues, with your consent and your anonymity as well.

Yours Truly,

Etiquette Insider

Lipstick on a Pig

Dos

Allow proper amount of time for recipient to respond- If you do not receive out of office notice, allow at least 4 hours before taking further action.

Use BCC when you are sending to mass recipients.

Use proper spelling, grammar, and punctuations.

Read, reread and make sure you have answered all questions.

Always close with your signature and have it include your title, contact information, and company information.

When including attachments make sure that they are in order, in a format that is universal, and file size that is supported by most mail clients.

Use emoticons and abbreviations sparingly.

Be courteous, concise, and to the point.

Use a professional email account.

Have an appropriate and descriptive subject line.

Don'ts

Overuse the high priority option.

Use BCC in any malicious behavior.

WRITE IN ALL CAPITALS.

Type anything that could later be held against you or that you do not fully intend to follow through with.

Use too many icons in your signature.

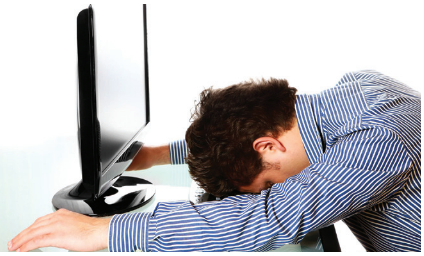
Send 20 attachments each containing one page.

Use slang or buzzwords. Ex. "btw, LOL, FML"

Use long sentences or innuendos.

Use gmail, aol, hotmail, and yahoo for business purposes if you have the means to obtain a company website and email server.

Use one-word subjects. Ex. " Hi, Hello, Good morning"



Never evers!

CC all your recipients in mass emails as they may wish to keep their emails private.

Respond with one word. Ex. "Sure, Okay, Yup, No, or Whatzup"

Respond when you are angry. Step away from your computer for 5, 10 or 20 minutes … in some cases don't respond until the next day.

Provide personal information such as your facebook account, twitter account, or your match.com profile.

Present unorganized attachments that when reviewed have to be printed off and then put in some form of order. No one likes to play "Where's Waldo" when it comes to documents.

When submitting to a financial institution for consideration use the subject line "New Deal".

Tell your life story or how you're still hung over from the weekend.

Use slang names in your email address. Bigfatdon@, moremoneymoreproblems@, and yummykisses@ (you know who you are!)

ANOTHER EMAIL TIP

Technology can be a time saver. For example, if you type 'Mar' into a new Outlook or Apple Mail e-mail, the rest of the stored address will automatically populate. Technology can also be a job killer. 'Mar' might auto-populate with Mark, Mario, or Maria for an e-mail intended for Martin. That can be easy to spot but it's a bit more tricky when you have multiple Martins in your address book. It only takes one sensitive e-mail sent to the wrong Martin or individual to cause potential damage to a relationship and the company. Before you send an e-mail, triple check it's going to the right person. You'll be thankful you did.

Most talked about funding companies of 2013

RapidAdvance - The RGE deal was the first non-distressed acquisition of a major merchant cash advance company. Is it just the first of many yet to come?

OnDeck Capital - Peter Thiel, Google Ventures, Goldman Sachs. Big players are involved and they're putting up huge numbers. It's hard not to notice.

Yellowstone Capital - There are a lot of Plan B/Decline type funders, but with $195 Million funded in 2013, Yellowstone Capital is suddenly amongst the largest merchant cash advance companies in the U.S.

Most active topics of 2013

Stacking - The good, the bad, the ugly. Love it or hate it, it's poised to increase in 2014.

Technology - To automate or not to automate. Can computers learn the human gut instinct?

ACH payments - Can a funder exist anymore without an ACH program?

RapidAdvance - By becoming part of the Quicken Loans family, RapidAdvance legitimized merchant cash advance funders and their products. Everybody wants to be next.

Declines - So what if the deal sucks on paper? In 2013, Plan B funders booked deals that would have never been considered in 2009.

Who Raised What in 2013?

OnDeck Capital
Series D Round $42M 2/13/13
Series D Round $17M 5/1/13
Debt Round $130M 9/16/13

Lending Club
Secondary Round $125M 5/1/13
New Investors $57M 11/13/13

RapidAdvance
Acquired ProMAC 5/15/13
Acquired by Rockbridge Growth Equity 9/16/13

Kabbage
Debt Round $75M 4/3/13

AmeriMerchant
Credit Line $60M 7/16/13

Prosper
Venture Round $20M 1/22/13
Private Equity Funding $25M 9/24/13

Funding Circle
Series C Round $37M 10/23/13
Acquired Endurance Lending Network 10/25/13

Fora Financial
Credit Line $13M 6/19/13
Debt Round $5M 7/11/13

Lenddo
Series A Round $6M 10/16/13

Lendio
Series B Round $4.5M 8/28/13

Snap Advances
Debt Round undisclosed 9/20/13

Data courtesy of public filings and company announcements. Accuracy not guaranteed.

YOU CAN'T ASK HOW BIG IT IS WITHOUT DEFINING WHAT IT IS

Nobody knows what merchant cash advance is anymore

By Sean Murray

I blame the Green Sheet for everything. Ever since they officially labeled the purchase of future credit card sales a merchant cash advance nine years ago, the term has been a never-ending minefield of ambiguity. In an October 10, 2005 issue titled, Merchant Cash Advances Open Doors, the payments-centric Green Sheet presented this exciting new financial product as an acquisition tool for merchant account sales.

Prior to this, there was virtually no consensus on a name. Merchant cash advance did make sense though as it was typically explained as an advance against future merchant account sales. Folks within the electronic payments industry understood it, but it would haunt them for all time. A truncated version of the term was already associated with payday lending. The connotation of *cash advance* was short-term consumer lending with a very high rate of interest. Must a merchant cash advance then be the same thing but for businesses?

Journalists and outsiders often thought so. Some of them still do. It didn't help that the transaction was actually expensive and the delivery of future sales short. It didn't quack like a duck but it looked like one and that was enough to damn it to hell as the financial crisis swept the nation. Much like Forbes writer Roula Khalaf officially transformed meat salesman Jordan Belfort into the Wolf of Wall Street in 1991, Maureen Farrell also of Forbes set the merchant cash advance industry back almost 5 years with her article, Look Who's Making Coin Off the Credit Crisis.

To Khalaf's credit, she didn't actually call Belfort a wolf, but she did mar his reputation. A similar situation occurred with the analogy Farrell used on March 13, 2008 that literally described merchant cash advance companies as vampires. It was a chaotic time for the industry. There was indeed a wave of undesirables moving in, most of whom were newcomers looking for a get-rich-quick scheme. Thousands of mortgage brokers lost their jobs and they migrated in droves to selling merchant cash advance without having a clue about what it was or how it worked. David Goldin, the CEO of AmeriMerchant documented this period well on his blog.

I was working for one of the funding companies referenced in that article and it was a tumultuous year for my self-esteem. Banks were shutting everyone out, EVERYONE. And yet journalists were telling small businesses to stay away from the only source of capital that was left. Merchant cash advance was the good bad guy. It was easy to hate, but it satisfied a crucial need, capital. It was also a one-size-fits-all deal. It was based on credit card sales, flowed through a merchant account, and was topped off with a more or less universal factor rate of 1.38. It was expensive because it was risky.

Fast forward

Using various sources, I estimated that approximately $524 million worth of merchant cash advance transactions took place in 2010. That figure was cited in many publications and used repeatedly as a benchmark of where the industry stood.

Some folks believed it to be absurdly low, yet I found that mostly because our definitions of what constituted a merchant cash advance was different.

The merchant cash advance product, if there really is such a universal thing as one anymore, constantly evolves. At the time I put out that number, I wasn't including transactions structured as loans or deals that relied on ACH processing for repayment. I limited it to purchases of future card sales captured via split-processing. In 2014 that would be an incredibly narrow scope.

Over time, some funders became lenders. Others began to purchase all future sales instead of just card sales. Deals got longer and shorter while costs both soared and diminished. New terms were invented and lines were drawn in the sand. Spawn from the same mother, a handful of funders desperately tried to shed the stigma of merchant cash advance and furiously distanced themselves from it in their marketing.

"We are **NOT** a merchant cash advance company."

Even though they were yesterday.

In biological taxonomy, merchant cash advance is a phylum. It encompasses a diverse hierarchy of classes, orders, families, genera, and species. Almost two years ago, I published Merchant Cash Advance Redefined (March 2012) on Merchant Processing Resource to describe the changes that were taking place. Even then it was clear that the industry was becoming less cohesive. "MCA is simply becoming synonymous with short-term financing," I wrote. We were going full circle, devolving back into the pre-2005 era when nobody knew what to call what we were doing.

I honestly thought the term itself was on the verge of extinction. In one of the most widely read Merchant Processing Resource articles of all time, The End of an Era (September 2012), I actually went as far as to predict that nobody would be using that term anymore at all by 2015.

But just last month in December, Renaud Laplanche, the CEO of Lending Club, used the term in testimony given before the House of Representatives. It is believed to be the first time it has been mentioned in a congressional hearing. With recognition on such an important stage, I have a feeling now that it won't be going away anytime soon.

So if merchant cash advance lives on, what is the industry? One of the last universally identifying characteristics of a merchant cash advance is the daily capture of funds. Whether it's the withholding of a percentage of card sales or a fixed bank account debit, funders are collecting payments just about every business day. Contrast that against loans with monthly payments and it doesn't take carbon dating to distinguish a traditional loan from a merchant cash advance.

It's no coincidence that this publication is duly named, *DailyFunder*. Merchant cash advance companies are daily funders. Structure a transaction however you want so long as every day is a payment day.

And with that said, we've defined it all over again. How big is the industry you ask? Here are some of the names you mustn't exclude:

CAN Capital

OnDeck Capital

Kabbage

RapidAdvance (Now part of the Quicken Loans family)

PayPal 's Working Capital Program

American Express' Merchant Financing Program

How Big is the Industry?

As of the moment I'm writing this, there is enough data to suggest that CAN, OnDeck, and Kabbage collectively funded about $1.5 billion in 2013. The other 3 big recognizable brands aren't even necessarily the next largest. There is an entire landscape of funding providers that put out $50 - $200 million every year without breaking a sweat; Merchant Cash and Capital, Strategic Funding Source, Business Financial Services, and AmeriMerchant to name a few. With more than 100 funding companies in existence today, it's impossible to measure merchant cash advance funding volume at anything less than $3 billion annually. My calculations seem to be in line with a number offered by Marc Glazer, the CEO of Business Financial Services, in a January 7th Wall Street Journal article. How much is actually outstanding at any given time is another story, but at least we have a starting point, a definition.

It hasn't done interested investors any good to hear that until now the size of the industry was approximately $1 billion a year with a margin of error of plus or minus a billion. That kind of loose speculation might be acceptable for an industry in its infancy but merchant cash advance transactions originate all the way back to the late 1990s. This business is as old as Google but it's suddenly on everyone's radar. Maybe that's because here we are years after the financial crisis and banks still aren't lending to small businesses. Non-bank corporations, some of them literally mom & pop-sized are playing the role of bankers. One thing is for certain though, small businesses aren't going to fund themselves.

Rumors still abound that this financial market is one of suit-wearing cowboys on Wall Street operating in a regulatory abyss. But when you pull away the curtain, you'll find household brands such as PayPal and American Express. Even Amazon.com's relatively young business loan program has a merchant cash advance feel to it. Follow the money upstream in this industry and you'll encounter Goldman Sachs, Wells Fargo Bank, Google Ventures, Thomvest Ventures, Peter Thiel, and other respected capital players. That's about as wild as it gets. Even Forbes changed their position albeit after a lifetime had passed. On April 10, 2013, Cheryl Conner published, 'Money, Money' – How Alternative Lending Could Increase Your Company's Revenue in 2013 in which she conceded there was good in this financial service after all.

Today's industry looks like a duck but quacks like the next Facebook. Somebody's eventually going to go public. It's said that there will be a Lending Club IPO this year, which is relevant because they're also a non-bank small business lender. If they and other peer-to-peer lenders compete against merchant cash advance companies directly, would it become necessary to include them in industry size estimates? Maybe, maybe not. Without the trademark daily payment, I think it's fair to say that merchant cash advance and peer-to-peer lending would belong to the same Kingdom but make up different Phyla. Should we count lenders with weekly programs too? Should we count traditional factors?

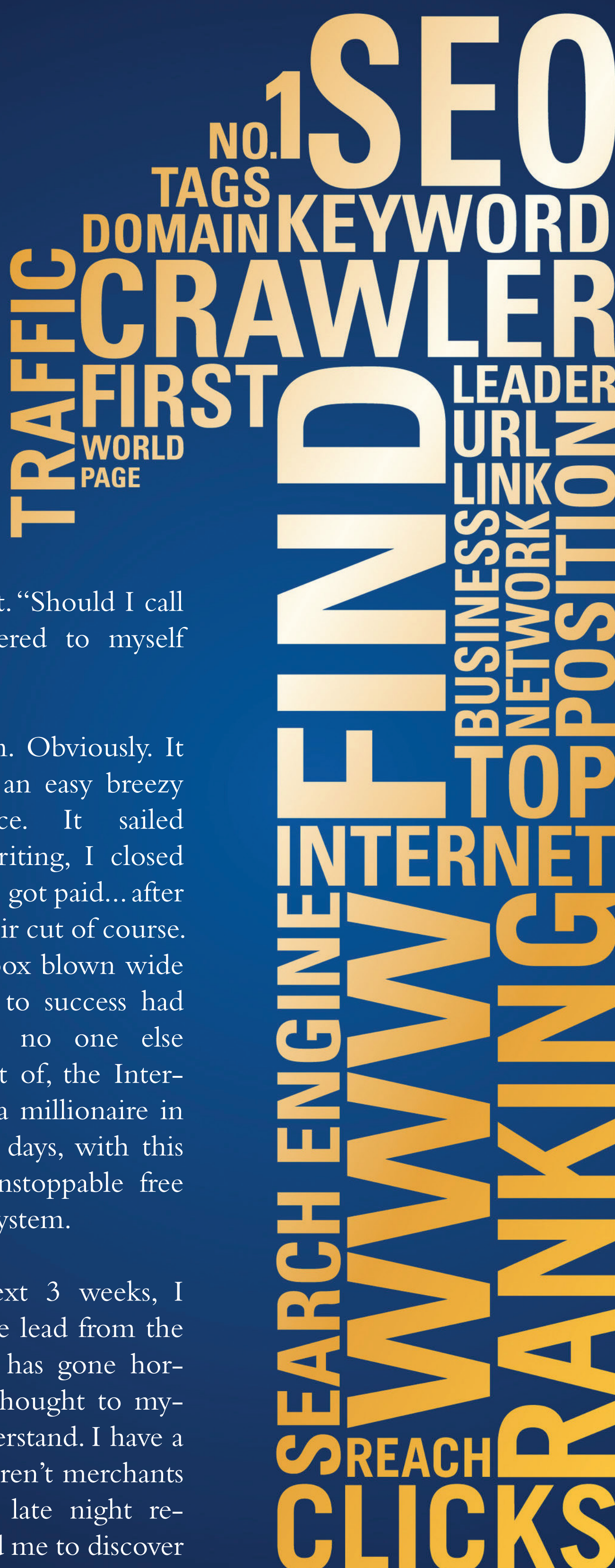
An ever-expansive scope impairs the ability to make assessments. I think we draw the line at funders that deal in payments daily. It is my belief that weekly funders and monthly funders are exempt from the label of merchant cash advance… for now anyway. I have no doubt we will need to redefine it all over again. Until then…

Daily funders funded at least $3 billion to small businesses in 2013.

PAGE 1 OR BUST

YESTERDAY'S SEO WON'T BRING YOU LEADS

By Sean Murray



I'll never forget how intoxicating the feeling was. In 2010 I made a small website using a free online site maker and within days got my first lead. It was as simple as that. As an account rep for a small ISO, I was beyond excited. The partners already hooked us up with quality leads and we had more than enough UCCs to get us through the day, but this had a different feel. It almost felt like I had cheated the system. You were either calling the same UCC that 50 other guys called or you worked Glengarry leads that cost an arm and a leg. People didn't just find you and call you. It just didn't happen until it happened to me.

"New Form Submission | DBA: xxxxxxxxx"

I got nervous. It was like seeing a hundred dollar bill lying on the sidewalk where you half expect to be tackled or shot with a poison dart as soon as you reach down for it. "Should I call them?" I whispered to myself with trepidation.

I called them. Obviously. It ended up being an easy breezy $50,000 advance. It sailed through underwriting, I closed it, it funded, and I got paid... after the house got their cut of course. With Pandora's box blown wide open, my secret to success had been something no one else had ever thought of, the Internet. I would be a millionaire in months, heck in days, with this high powered unstoppable free lead generation system.

Over the next 3 weeks, I didn't get a single lead from the site. "Something has gone horribly wrong," I thought to myself. "I don't understand. I have a website so why aren't merchants finding it?" My late night research would lead me to discover that I was missing a very important ingredient.

SEO. As I would cruelly learn, sometimes in life you have to work for stuff. Still high off the commission (interpret this however you wish) from that one 50k deal, I vowed to learn the magic of Search Engine Optimization even if it killed me.

Backlinks?
I can get some of those.

Content?
Sure, why not.

Valuable content that can't be found anywhere else that is so awesome that everyone shares it?
Woah, hold on. I'm not trying to do work here.

I would go on to eventually spend the majority of my free time engaged in a never ending turf war for valuable search result placements. *Am I on page 1 now? How about now? What about now?* Often times I was on the first results page for a monster search query and it would pay off. Sometimes good keywords would be complete duds. That sucked.

Over time I learned that SEO wasn't just a battle against competitors, it was a battle against the search engines themselves. Every so often Google would tweak the algorithm and banish companies big and small to Internet purgatory. One day people found you and the next day they didn't. That was the catch to free leads, not that I really ever considered the time spent to generate them to be free. Trying to beat the system was like playing Russian Roulette. I was amazed to see how many ISOs, funders, and lead generators were out there SEOing it up just to get a small piece of the action even if their tricks lasted for only a short period of time. When the party would end, they would just fire the SEO guy and hire another one to pick up the pieces and go back into battle all over again.

There's a problem with that strategy in 2014. Google and other search engines have grown tired of the game. The rules have changed so much that I wouldn't be surprised if your "SEO guy" has any idea what's going on anymore. Once your website gets run into the ground through manipulative tactics, you can't recover from it...ever. For the most part if Google determines that you were doing something unnatural to rank better, they'll make sure you never rank well again. Tell them you're sorry, they won't care. Blame it on someone else and they won't care. Submitting a reconsideration request and disavowing bad links might help get you out of a penalty but it doesn't mean you'll be back on page 1 anytime soon. Once you're gone, you're pretty much gone.

What is page 1 in 2014 anyway? It doesn't really even exist anymore, at least not the way it used to. If you and I google the same keyword, there's a huge chance we'll get different results. Page 1 is all relative. Are you on a desktop or a mobile device? Are you logged into Gmail? What have you searched for previously? Who are you friends with online? What country are you in? What state? What city? What block? All of these things and more factor into the results we are presented with. If someone tells you today that they'll get you to the first page of Google, ask them what the hell they're talking about.

SEO is not dead, but your SEO guy might be. If his or her only job is to "rank your site", Google will happily begin planning your funeral. Optimization in this era goes hand in hand with your overall marketing plan. If anything you do is meant to increase "rankings" rather than increase customers, you're doing it wrong. Call a meeting and ask yourselves, if there were no such thing as organic search results, how would business owners in need of capital find your site? Your ideas might not work out the way you initially plan, but there's nothing wrong with a little trial and error. At the very least, your SEO guy's job will be to make sure your site is optimized for conversions and that it is compliant and readable by search engines. Execute a successful comprehensive marketing campaign that doesn't focus on search and there's a pretty good chance you'll benefit in search. That's the way the wind is blowing in 2014.

I've run a few websites in my time day and I still do. One viral

> SEO guru David Amerland argues that it is now more expensive to try and game the system than it is to operate legitimately.
>
> **Source:** Google Semantic Search

story can outperform the traffic produced by an entire SEO team in India over 6 months. Once you've made it happen, you'll get that feeling I did almost 4 years ago, that you are somehow cheating the system. Except you won't be.

"New Form Submission | DBA: xxxxxxxxx"

Feels good, doesn't it?. There's no substitute for good marketing and if you treat the customer right, they'll find that there's no substitute for you either.

For a good read on the new era of SEO, I personally recommend buying Google Semantic Search by David Amerland. If not for yourself, then for your marketing team.

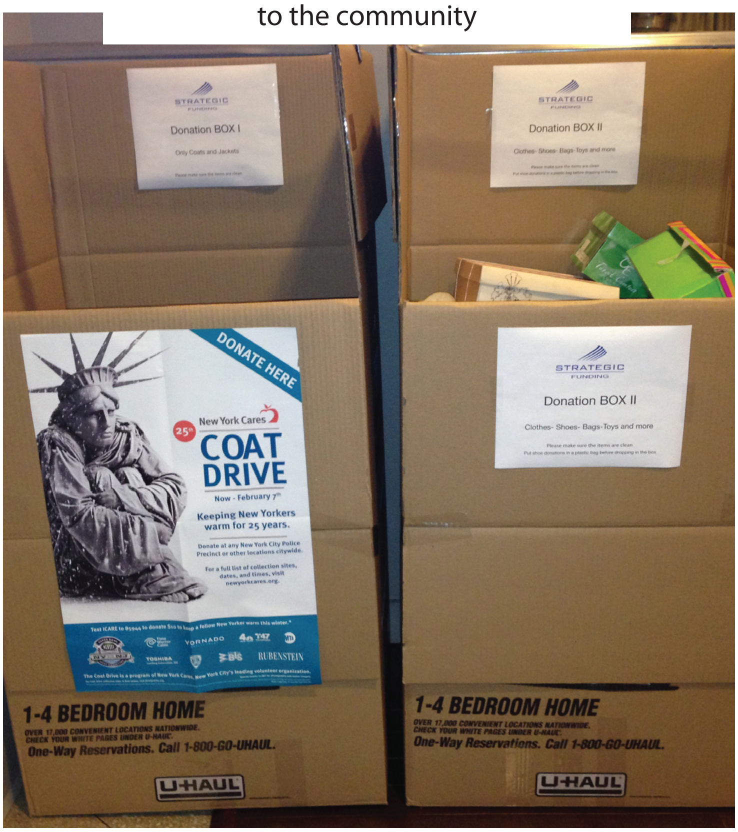
The Word on Funding Street

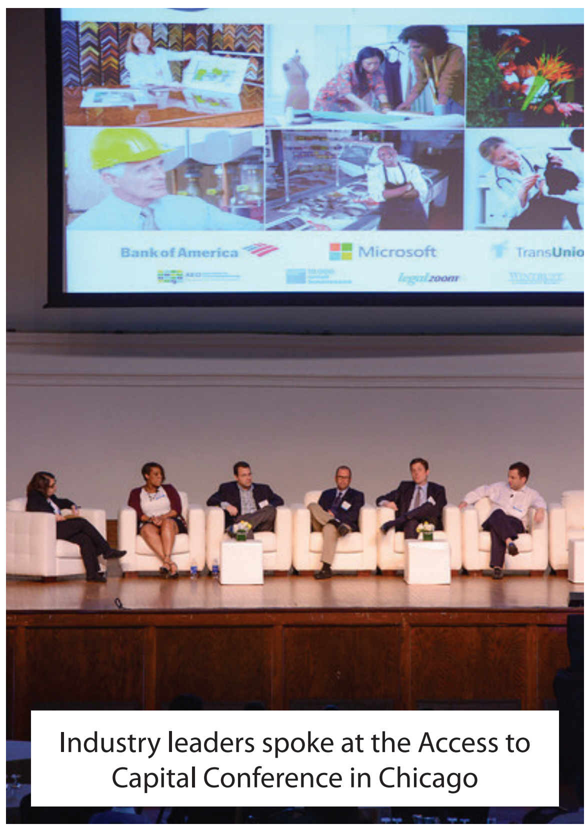
"With all types of new lending companies entering the space, expect a fresh untouched batch of UCCs in 2014 and beyond."
— Anonymous

"P2P OR B2B- Who will win the race for financing?! Will Credit Scores ever be the same!?"

—Chad O., New York City

Strategic Funding Source gave back to the community





Industry leaders spoke at the Access to Capital Conference in Chicago

The industry took over New Orleans during the ETA Expo in 2013

Funders unveiled plenty of new technology

Yellowstone Capital didn't let anyone go home hungry.

Merchant Cash and Capital spread the word about alternative financing.

LETTER FROM THE EDITORS

CONTINUED FROM PAGE 3

THE ENTREPRENEUR

A little motivation to get your shop humming in 2014

They paint their faces, they unsheathe their swords. They look fearless even if they are in fact full of fear. Some wear a full body of armor and others have no armor at all.

We've all seen them, but they are not easily understood. The entrepreneur storms the castle not because he believes he will be victorious in doing so, but because he believes the castle must be stormed. He does it with a purpose and intent that is all his own. Some do it for riches and some for recognition. Others do it simply to change the status quo.

Call it an innate desire for conquest in modern times. An empire of widgets or influence is not much different than the empires of land and resources of yore. When an entrepreneur looks in the mirror, he sees his blood, his sweat, his tears. He sees scars that others cannot. Eyes burning, jaw clenched, he reminds himself that he will not go quietly into the night.

There is an acknowledgement that even if the worst should happen and the pursuit fails, that all has not been in vain, that it was a great honor to have gone down trying than to have not tried at all. One should imagine each failed startup contributing to a greater purpose, as felled warriors being greeted by the ancient valkyries of Valhalla.

Every entrepreneur has that first moment. The moment where they finally take the plunge and risk it all. It's a moment they can't take back and wouldn't even if they could. Completely surrendering to the risk of total failure to pursue self-created success is an event that forever changes a man's psyche. So empowered is that individual when they exchange their hard hat and workman's gloves for a battle axe and chainmail. It's as if Pandora's box opens and all at once they learn that they and they alone control their destiny.

Metal clangs, horses neigh. The entrepreneur roars and charges ahead. The crowd wonders, "why does he do it?" and the enemy wonders the same. Sword unsheathed, gaze steady, fearless looking even if full of fear. Not everyone can be like them. Some wear armor and others not at all. They come from all different backgrounds and circumstances. They storm the castle not because they believe they will be victorious, but because they believe the castle needs to be stormed. They do it because they must do it, because there is no going back. They do it for riches, for recognition, for change, for passion, for happiness, for love, for the challenge, for conquest, for their honor…

Are you an entrepreneur?


merchant cash advance
investor
HELLO!
hedge fund
Hello
private
Equity