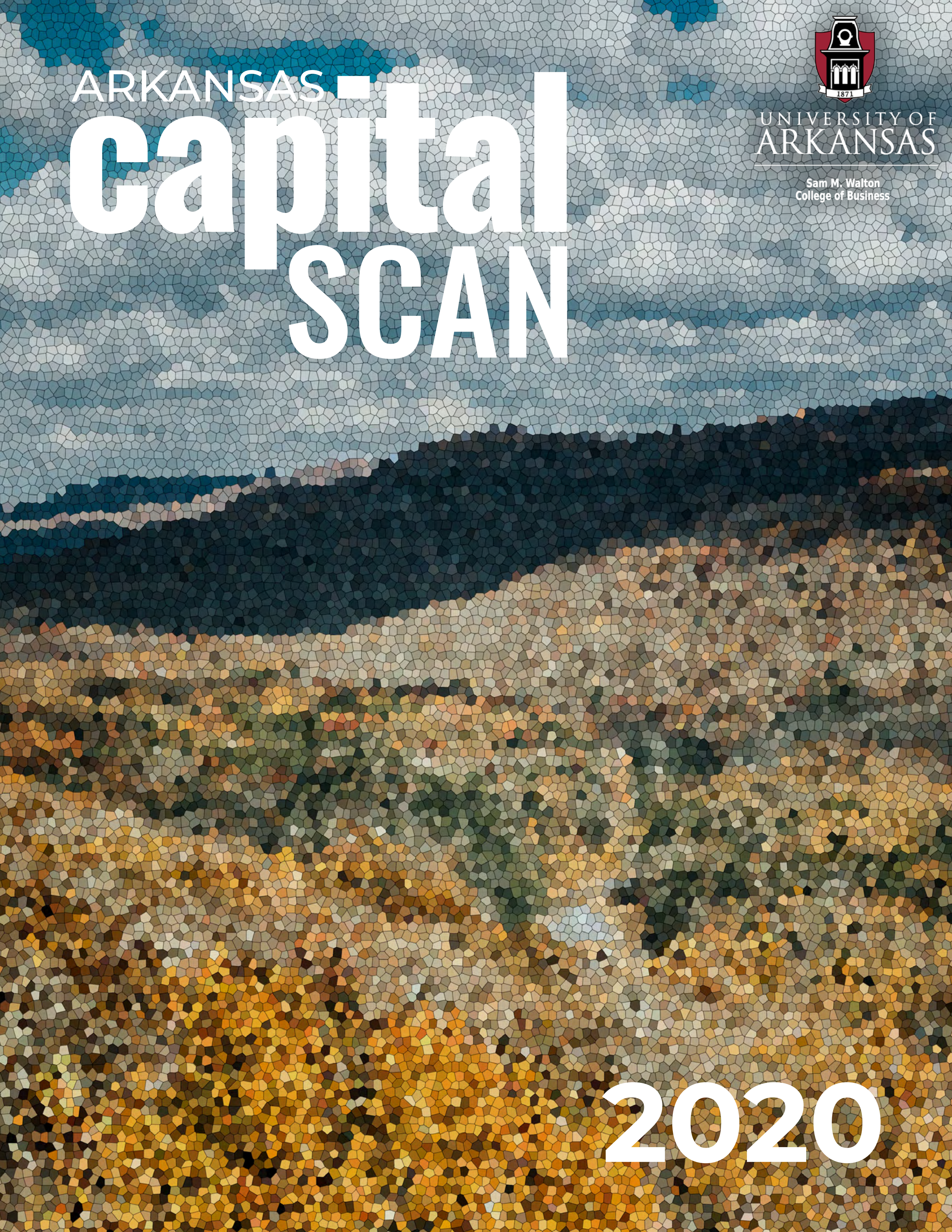
ARKANSAS capital SCAN



UNIVERSITY OF ARKANSAS

Sam M. Walton College of Business

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2020

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ACKNOWLEDGEMENTS

The Arkansas Capital Scan project would not have been possible without the collaboration of a multitude of people who share a commitment to the development of Arkansas' knowledge-based economy and to supporting a diverse and thriving community of entrepreneurs across the state.

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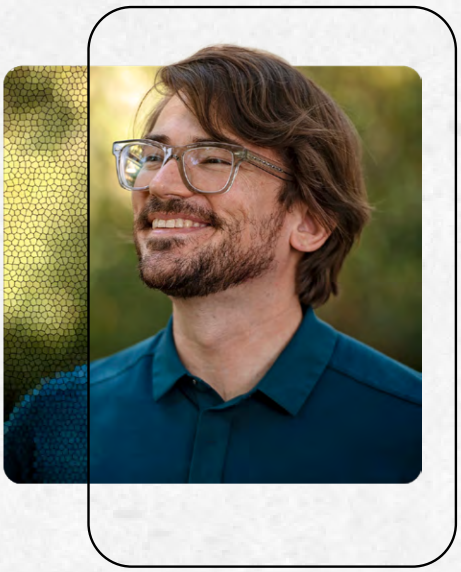

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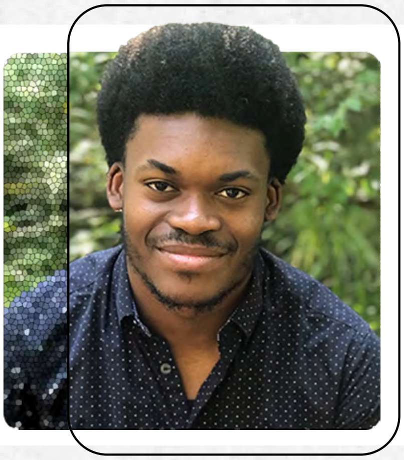

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CAPITAL SCAN ADVISORY BOARD

This report presents information on startups, angel and venture capital investments, crowdfunding, grants from governmental and philanthropic bodies, and banks and credit unions in the state. The level of granularity in the data that we can access depends on how well we demonstrate value to the various funding bodies in the area. To that end, we assembled an advisory board to aid our team in steering the inquiries in meaningful ways and to facilitate the collection of data. We are grateful for the advice and introductions they provided our team, and there is no question that their support improved the quality of this report.

THE ADVISORY BOARD FOR THE 2020 ARKANSAS CAPITAL SCAN INCLUDED:

Alese Stroud, Board Chair of the Ark Angel Alliance and CEO of Issac.ai

Amy Hopper, Program Manager of the Arkansas Research Alliance

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Jeannette Balleza Collins, Director of Entrepreneurial Development of the Northwest Arkansas Council

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Leslie Lane, President of the Arkansas Capital Corporation Group

Mervin Jebaraj, Director of the Center for Business and Economic Research at the University of Arkansas

Michael Eggleston, Senior Community Development Advisor of the Federal Reserve Bank of St. Louis

Mike Preston, Executive Director of the Arkansas Economic Development Commission

Ramsay Ball, Principal Broker of Cignus Real Estate

Yee-Lin Lai, Senior Program Officer of Home Region at the Walton Family Foundation and Fellow of Heartland Forward

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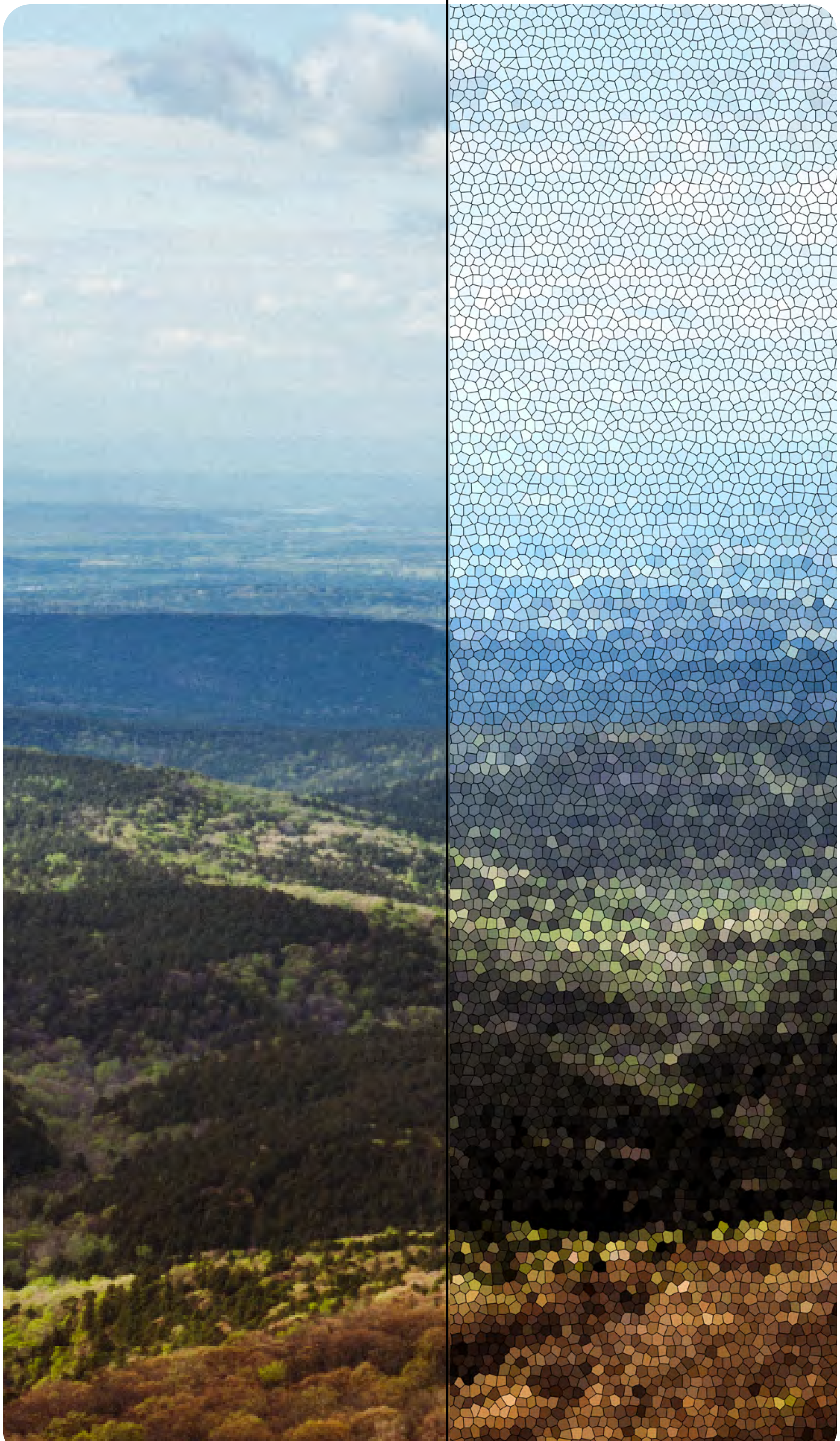


INTRODUCTION

This report seeks to provide a view of the landscape of capital resources available to businesses in Arkansas through a broad cross-section of capital types. In early 2020, the University of Arkansas created a team, including faculty, graduate students, and leaders in the entrepreneurial ecosystem, to collect primary and secondary data on capital investments in the state. Modeled after a similar report published each year by the University of Oregon, the Oregon Capital Scan, this report covers the flow of capital to early-stage companies located in the state of Arkansas during the 2020 calendar year.

With the onset of the pandemic and the shift to virtual everything, the Arkansas Capital Scan team worked diligently to continue coordinating with ecosystem stakeholders and collect data, even as the landscape itself rapidly changed. Our scope expanded with the creation of new federal and state relief programs, many of which explicitly targeted small businesses through a mix of debt and non-dilutive investments.

We have organized this report by type of investment, looking at the regional, industry, and demographic distributions of investments. While this report will serve as a baseline to measure against for future years, we did not have any historical data to use as a comparator. Instead, we selected three states to act as comparators to assess the health of Arkansas capital flows. These states (Oklahoma, Missouri, and Tennessee) were chosen for their geographic and demographic similarities, and the potential to serve as models in areas where our investments lag.

The ultimate objective of this report is to understand the flow of capital in Arkansas and identify potential areas where the ecosystem can be strengthened and funding gaps where capital inflows could increase or be deployed more efficiently. To aid in that goal, the analysis has been written to be both useful to practitioners and accessible to people unfamiliar with the landscape of business investments. A complementary report, published in 2021 by Innosphere Ventures in partnership with Pitchbook, examines the outflow of capital from Arkansas venture capital firms to startups inside and outside the state.

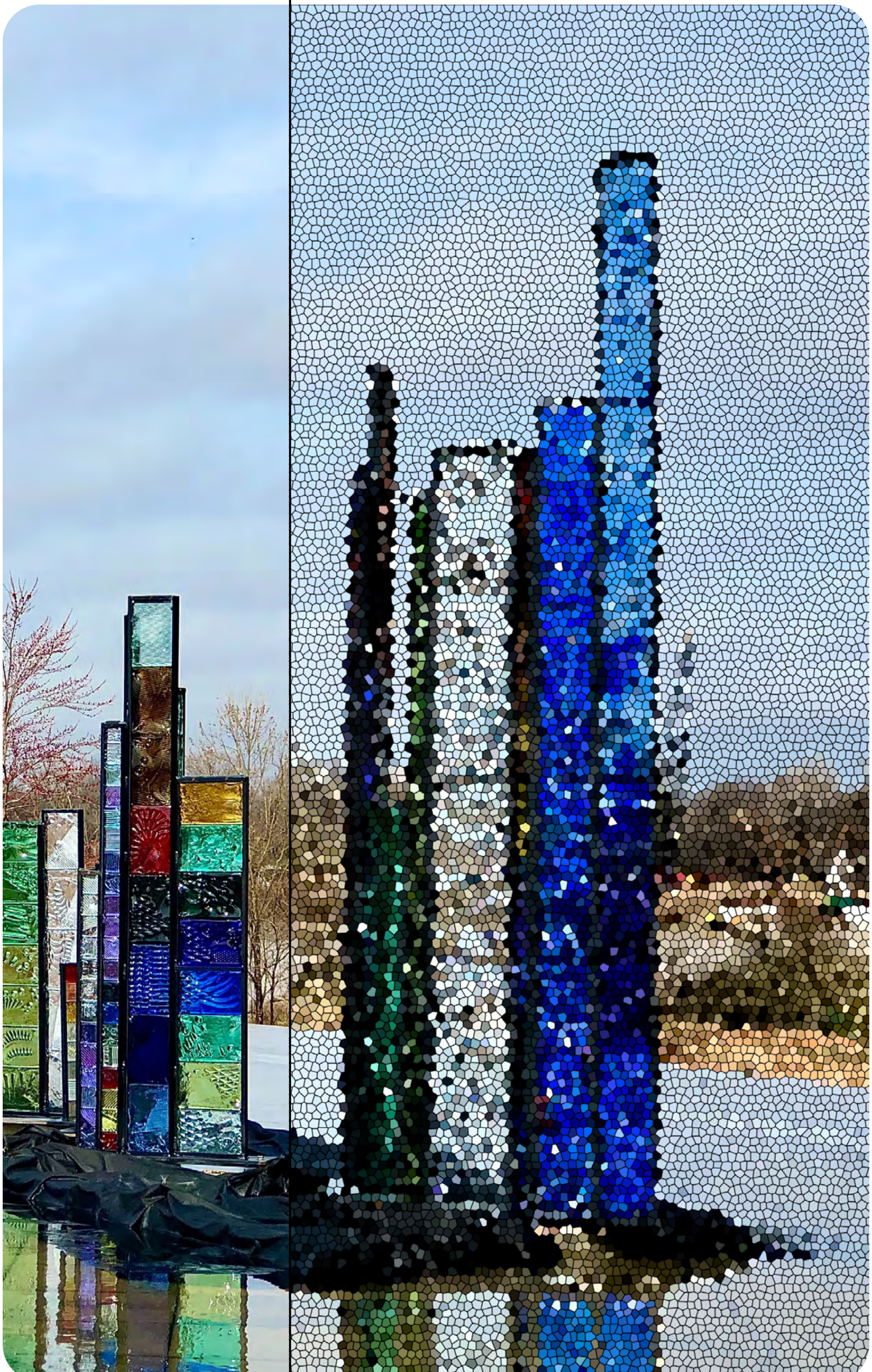
"The majority of venture capital is concentrated in just three states of California, Massachusetts and New York. Startups and entrepreneurs in Northwest Arkansas and many regions in the Heartland are often overlooked and underserved in terms of availability of capital.

"As we look at ways to reduce disparity and ensure a more equitable distribution of capital across the nation, it is important to have good and reliable data that can help provide benchmarking and evidence to inform decisions and develop constructive solutions. Effective data collection and analysis will allow us to direct resources where they are most needed. The Arkansas Capital Scan report is an important step toward enabling a better understanding of the region's capital sources and gaps."

Yee-Lin Lai

Senior Program Officer of Home Region Program at the Walton Family Foundation and Fellow of Heartland Forward

ARKANSAS ECONOMY



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INTRODUCTION

In a typical year, an overview of general economic indicators can provide a good foundation to contextualize the data on capital investments in the rest of this report. We note here at the outset of this, our inaugural report, that the state of the economy and the COVID-19 pandemic tangibly affected both the demand and supply side of capital and the resulting deal flow. Nevertheless, this report should serve as a useful baseline for observing trends over time as public, private, and philanthropic investments in entrepreneurship continue to grow across the state.

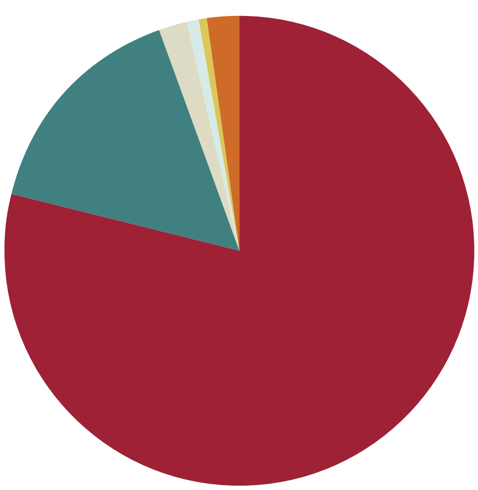
Given how unusual 2020 was, this section will help ground the coming analyses in the economic and social realities Arkansas faces coming out of the pandemic.

DEAL FLOW (n): The total stream of opportunities for business investment and investment offers made by individual investors or firms. A high rate of deal flow indicates a healthy ecosystem where businesses have access to capital and investors have enough opportunities to keep their capital at peak capacity.

ARKANSAS DEMOGRAPHICS

Arkansas has a population of approximately three million people, a number that grew annually by an average of 3.3% between 2010 and 2020, when the last U.S. Census was conducted. The Northwest Arkansas metro area grew by 24.2% in the same time period. That is the slowest growth rate that Arkansas has experienced in decades. Of the three million people who call the state home, 57.9% are in the civilian labor force, compared with 61.9% nationally.

Demographically, Arkansas is largely white, with 79% of the population identifying as white alone. Arkansas ranks 12th among all states in terms of the size of its Black or African American population, with 15.7% identifying as Black or African American alone. Similarly to other states, Arkansas has seen its population slowly diversify, with the share of population identifying as something other than white growing from 19.6% to 21% over the last decade.



WHITE ALONE - 79%

BLACK OR AFRICAN AMERICAN ALONE - 15.7%

ASIAN ALONE - 1.7%

AMERICAN INDIAN AND ALASKAS NATIVE, ALONE - 1.0%

NATIVE HAWAIIAN AND OTHER PACIFIC ISLANDER, ALONE - 0.4%

TWO OR MORE RACES - 2.2%

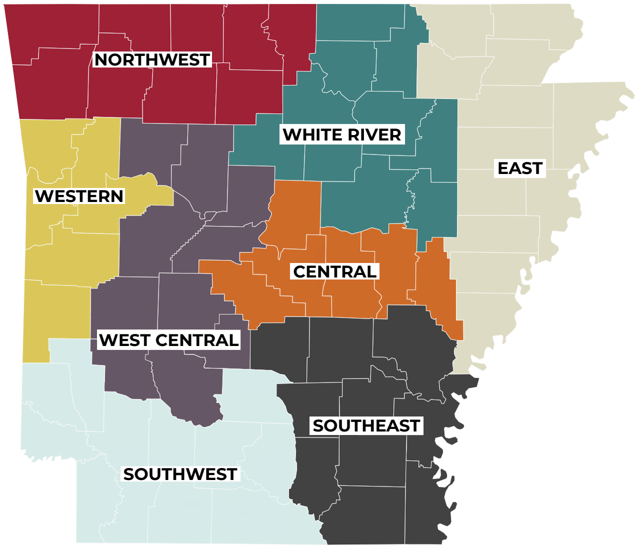
HISPANIC OR LATINO - 7.8%

WHITE ALONE, NOT HISPANIC OR LATINO - 72.0%

ARKANSAS ECONOMIC REGIONS

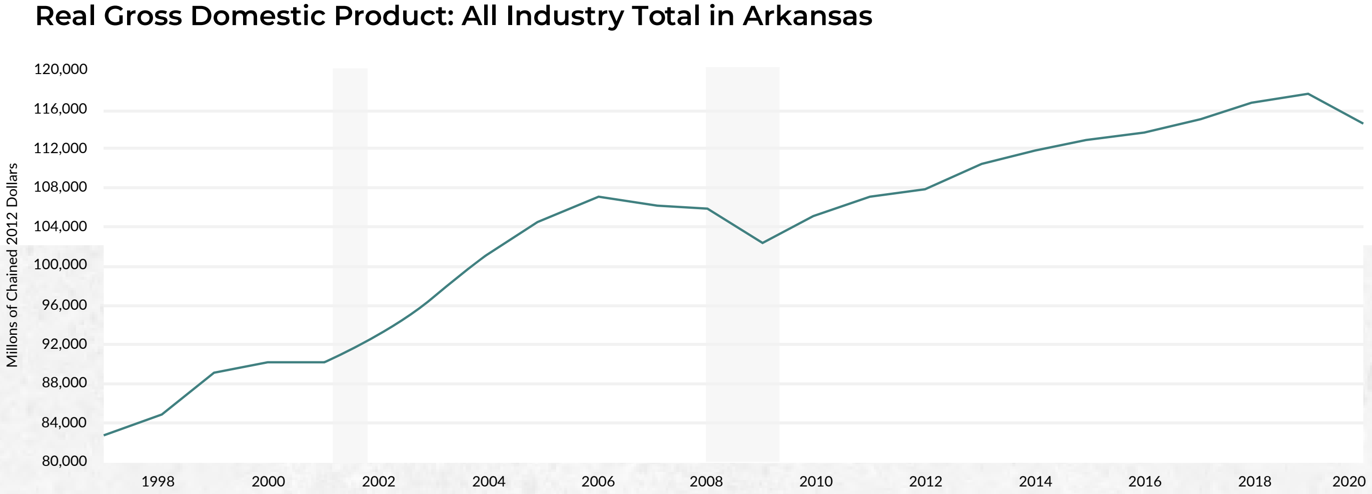
Wherever possible, the analysis of data for the Arkansas Capital Scan includes information disaggregated by economic region. The state of Arkansas is split up into eight economic development districts that each cover between six and nineteen counties. Each district creates their own regional development strategy, called the Comprehensive Economic Development Strategy (CEDS), based on the strengths and opportunities of that region.

More information about the economic planning and development districts of Arkansas can be found at: https://arkansaseconomicregions.org.



ARKANSAS 2020 ECONOMIC INDICATORS

Over the last two decades, Arkansas has had strong economic growth. Since the 2008 recession, the real Gross Domestic Product (GDP) has grown 14.6%. With the COVID-19 pandemic, the real GDP of Arkansas dropped 2.6% while it dropped nationally by 3.5%[1].



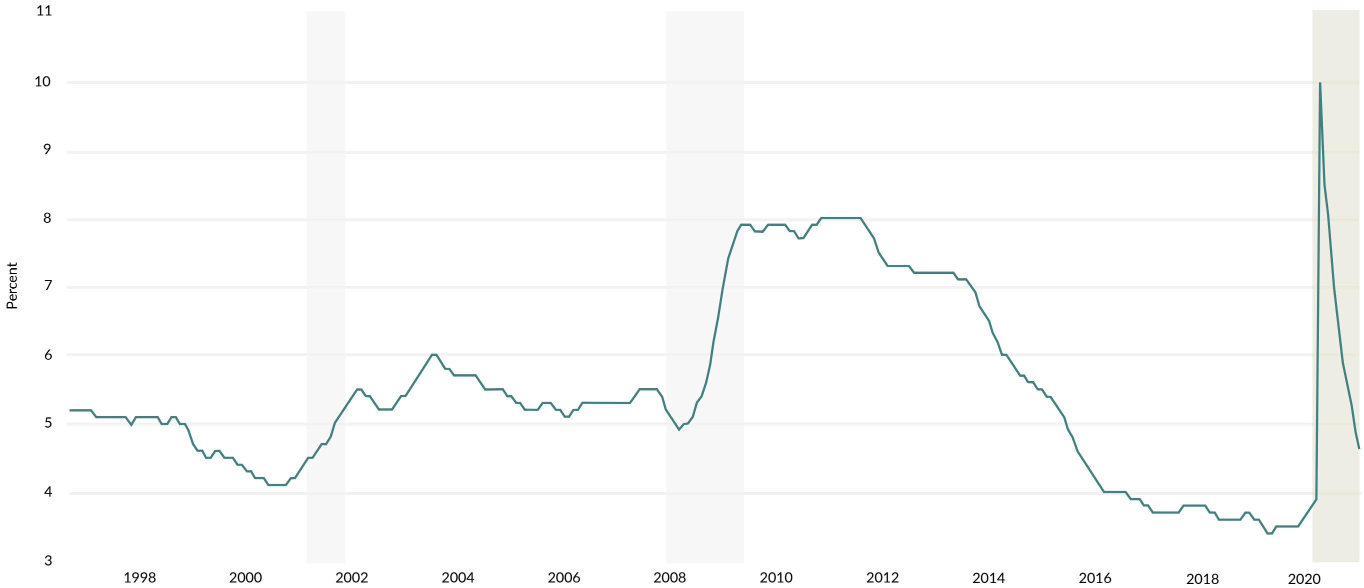
U.S. recessions are shaded; the most recent end date is undedided. SOURCE: U.S. Bureau of Economic Analysis

[1] Mutikani, L. (2021, Jan 28) "COVID-19 savages U.S. economy, 2020 performance worst in 74 years." Reuters. Retrieved from: https://www.reuters.com/article/us-usa-economy-idUSKBN29X0I8

UNEMPLOYMENT

The most recent unemployment data also shows the impact of the COVID-19 related shutdowns. The unemployment rate peaked at 10.0% in April 2020. Unlike the last recession, employment rebounded quickly as businesses were able to adapt to the public health measures implemented in the state and reopen. As of December 2020, the rate had dropped back down to 4.9%. Unemployment still remains low, although not quite as low as the six years prior to the pandemic.

Unemployment Rate in Arkansas



SOURCE: U.S. Bureau of Economic Analysis

Unemployment statistics are interesting for this context for three reasons. First, we often see a rise in unemployment as businesses struggle. During the 2008 recession, unemployment rose as businesses closed. The struggle these businesses had in recovering from the recession can also be seen in the stagnation in the unemployment rate between 2008 and 2011.

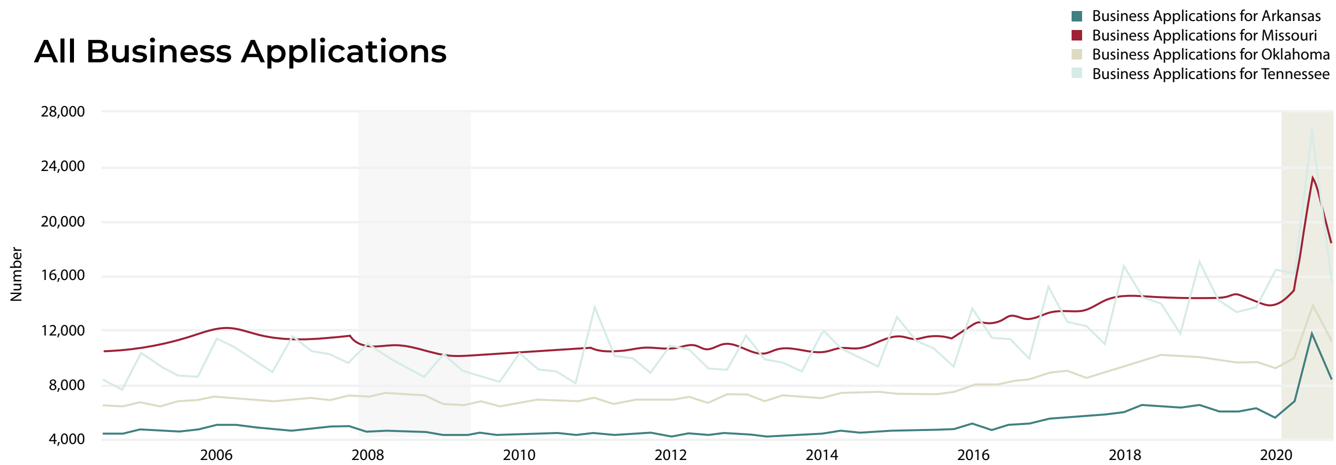
Second, the availability of a skilled workforce is critical for the success of businesses looking for capital. When unemployment is very low, it can be hard for businesses, and in particular startups and other small businesses, to recruit the workforce they need to operate at an optimal level, which directly affects their profitability and eventual ability to secure or repay capital. Also, when unemployment is low, fewer people are incentivized to try entrepreneurship.

Third, when unemployment is very high, it can be easier for businesses to recruit employees, but people are also incentivized to start their own businesses.

BUSINESS CREATION

With the onset of the COVID-19 pandemic, Arkansas saw an unprecedented spike in new business applications. Business registrations have been increasing generally over the last four years, but in Q3 2020 alone, there were 11,556 applications for Employer Identification Numbers (EINs). This was a 92.7% increase compared to the same period the previous year.

All Business Applications

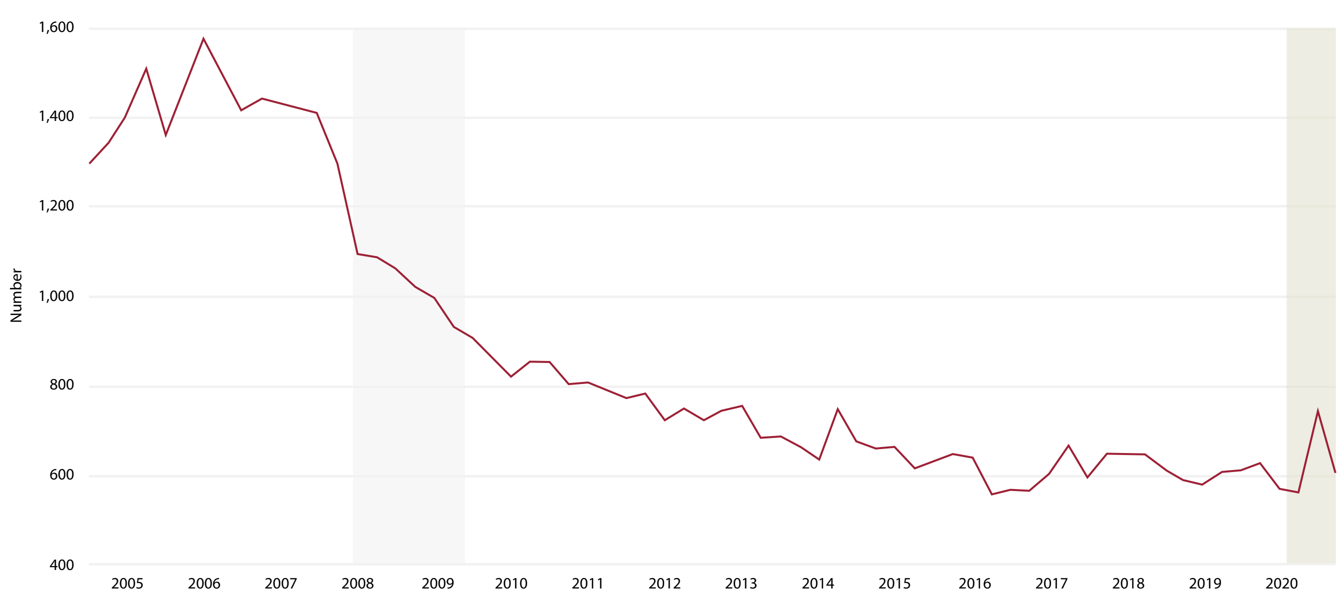


The above chart shows the total EIN applications for the states of Arkansas, Missouri, Oklahoma, and Tennessee by quarter. The increase in Arkansas reflects trends seen across the nation and is comparable in scale to Missouri and Tennessee.

This chart only reflects formal businesses that have gone through at least part of the business registration process. This does not include any informal businesses or businesses preparing to launch. It is important to note that a business typically needs to be formally registered before accessing the majority of the types of capital covered in this report. However, the spike in business registrations is a potential indicator of demand for capital in the coming years, as these businesses start to grow and expand.

By contrast, applications for new corporations in Arkansas have stayed steady, indicating that the spike of business registrations has been mostly driven by small businesses. The numbers in the chart below specifically represent "High-Propensity Business Applications" that are considered to have a high likelihood of transitioning into businesses with payroll.

High-propensity Business Applications



PATENTS

While business registration is an early indicator of business growth, registration of patents is a good indicator of the health of innovation economies. Specifically, the rate of new patents can provide insight into the strength of innovation development and potential for commercialization and economic growth of a region. Arkansas is second in the country for growth in new, innovative patents. In 2020, innovators in Arkansas were issued 455 patents. Over the last five years, the number of patents has increased by 15.2%[2].

WHY DO PATENTS MATTER? Patents represent non-replicable innovation considered critical for high-growth and high potential businesses. The competitiveness of a business at market is significantly improved when patents are involved, particularly for businesses that rely on technology and innovation for competition. A well-planned patent can help a company control its access to a market and protect the investment it has made into research and development. This kind of market access and control can be critical to securing equity investment, as many investors look for innovations that cannot be easily replicated and replaced in the market.

While the growth is promising for future economic growth, Arkansas still has a ways to go before the production of patents is comparable to similar states. Three other states we will use as comparison regions within this report, Missouri, Oklahoma, and Tennessee, each receive more patents annually than Arkansas. When assessed per capita, Arkansas lags all comparator states with 15 patents per 100,000 people.

But Arkansas has a higher rate of growth in patents awarded, potentially indicating that we are making progress in catching up.

	# patents in 2020	5-yr avg annual change	Patents per 100,000 people
Arkansas	455	15.2%	15.1
Missouri	1511	7.4%	24.6
Oklahoma	632	3.6%	16.0
Tennessee	1230	4.0%	18.0

The indicators for business registration and the growing number of patents registered to Arkansas innovators show that there is a growing business ecosystem likely to result in a demand for more capital in the coming years. Given that the majority of these businesses are not considered among those likely to produce payroll, there may be an even greater need for capital access to transition small businesses into job creators.

MINORITY-OWNED BUSINESSES

The previous economic indicators all look at the Arkansas economy from a race blind perspective. But as previously mentioned, Arkansas ranks 32nd in population but 12th among all states in terms of the size of its Black or African American population and 28% of the population identifies as a minority race and/or ethnicity (inclusive of those who identify as white racially and hispanic/latino ethnically). Nationally, we have seen that minority business owners have different economic outcomes[3] and a harder time accessing capital than white-owned businesses[4].

While 28% of Arkansas' population is made up of people identifying as a minority race and/or ethnicity, 14.6% of all firms are owned by minority entrepreneurs in 2018[5]. In the most recent assessment available (prepared in 2007 using 2002 data), minority-owned businesses only receive \$1.7 billion of the \$67 billion spent in the state with classifiable firms[6]. This means that collectively, minority businesses in Arkansas only receive 2.5% of all business receipts.

In 2012, Arkansas was 5th in the country for highest growth rate for receipts for minority-owned businesses[7], but there is still a staggering disparity in revenue for minority business owners compared to other business owners. Wherever possible, we will be disaggregating the Arkansas Capital Scan data and analysis by demographics to ensure we are able to fully assess the strengths and weaknesses in our capital ecosystem for all Arkansas businesses.

[2] Edwards, C. (2021, Jan 17). "Useful States : New utility and plant patents by state, 2016-2020." SSTI. Retrieved from: https://ssti.org/blog/useful-stats-new-utility-and-plant-patents-state-2016-2020.

[3] MBDA. (2017). "Fact Sheet: All Minority-Owned Firms." Minority Business Development Agency. U.S. Department of Commerce. Retrieved from: https://www.mbda.gov/sites/default/files/2021-08/All%20Minority-Owned%20Firms%20Fact%20Sheet%200728021_11pm%20Hires.pdf

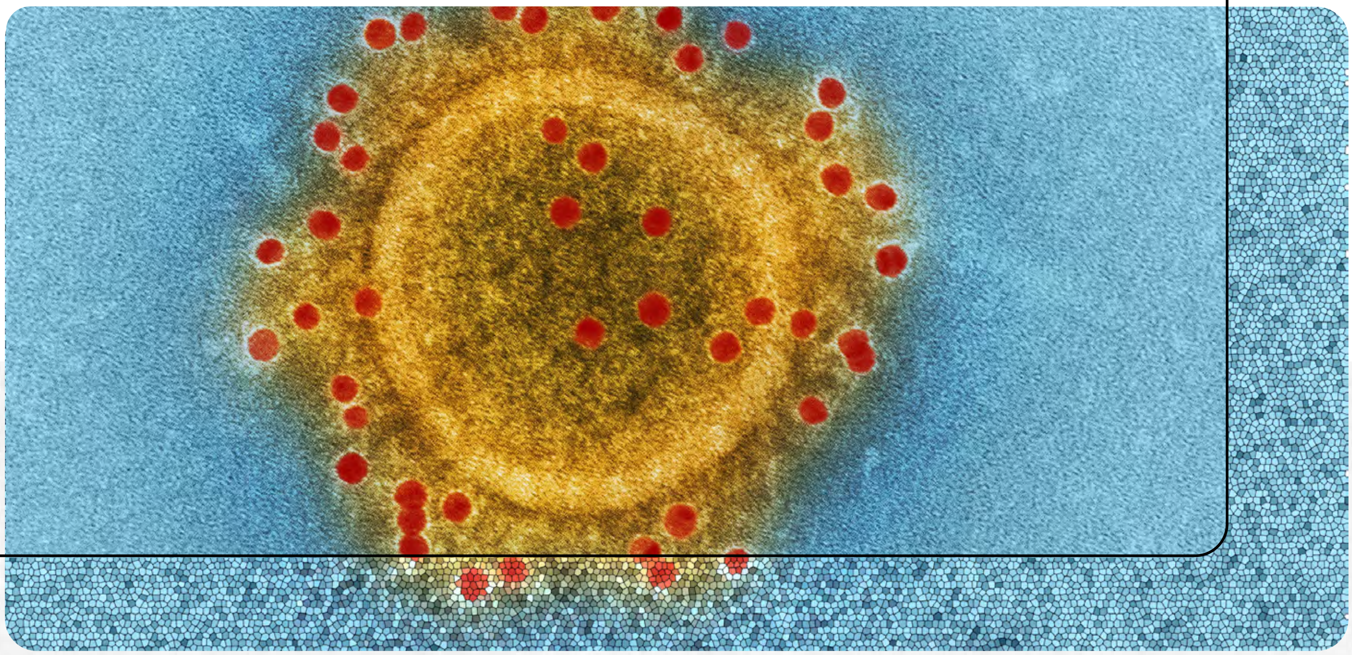
[4] Fairlie, R.W., Robb, A., and Robinson, D.T. (2020). "BLACK AND WHITE: Access to capital among minority-owned startups." Working Paper 28154. National Bureau of Economic Research. Retrieved from: https://www.nber.org/system/files/working_papers/w28154/w28154.pdf

[5] SBA. (n.d.) "2018 Small Business Profile: Arkansas." Report. Office of Advocacy. U.S. Small Business Administration. Retrieved from: https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-AR.pdf

[6] MBDA. (n.d.) "State of Minority Business: Arkansas." Report. Minority Business Development Agency. U.S. Department of Commerce. Retrieved from: https://www.mbda.gov/sites/default/files/migrated/files-attachments/Arkansas_Profile.pdf

[7] MBDA. (2018). "The State of Minority Business Enterprises: An Overview of the 2012 Survey of Business Owners." Minority Business Development Agency. U.S. Department of Commerce. Retrieved from: https://www.mbda.gov/sites/default/files/media/files/2019/mbdastateofminoritybusinessenterprises_2012data.pdf

COVID-19 CONTEXTUALIZATION



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At the start of 2020, the University of Arkansas started working on this report with collaboration from the University of Oregon and a team of people across the entrepreneurial ecosystem in Arkansas. We anticipated that this report would serve as a baseline and starting point for the ongoing assessment and analysis of deal flow and capital access in the state of Arkansas.

The Capital Scan team did not anticipate the breadth of impact that the COVID-19 pandemic would have on our communities. Between the unprecedented business disruptions that threw our economies and workforce into a freefall, and the massive capital relief efforts of the federal government through the CARES Act and other mechanisms, this report will, by necessity, capture the unique challenges and opportunities that arose during this unusual time.

Where necessary, we will contextualize the analysis of loans and investments within the pandemic and assess where the pandemic may have interrupted capital flows or shifted the approach of investors. We also include a section dedicated to the relief and investment programs developed in 2020 in response to conditions that arose out of the pandemic. This analysis will be restricted to loans and grants provided in 2020 to businesses in the state of Arkansas. Funding through the Paycheck Protection Program and the Economic Injury Disaster Loans have continued into 2021, and a number of smaller programs from the state government as well as smaller institutions are beginning to ramp up and will be influential on capital markets in the state of Arkansas in the coming years.

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ANGEL + SEED INVESTMENT

INTRODUCTION

Following the informal "friends and family" round that often capitalizes new startup companies at their earliest stages, angel investment is typically the first form of equity funding for a business. Angel investors are usually high net-worth individuals who qualify for **accredited investor** status by meeting criteria governed by the U.S. Securities and Exchange Commission.

Many accredited investors find investment opportunities through part of a network that vets businesses and provides professional management services. In Arkansas, angel investment networks have periodically formed and deployed organized capital into the entrepreneurial ecosystem over the last 15 years.

ACCREDITED INVESTOR (n.): An investor with a special status under financial regulations that allows them to invest in complex and higher-risk investments. While there are a number of ways to become an accredited investor, typically an individual accredited investor must have a net worth of at least $1,000,000, excluding the value of a primary residence or have an income of $200,000 per year as an individual, $300,000 combined with a spouse. This status is set by the U.S. Securities and Exchange Commission.

"A commissioned study of the Northwest Arkansas early-stage investing landscape revealed that the region indeed has many strengths—Fortune 500 companies headquartered here on the lookout for top talent, a major state research university and robust statewide entrepreneurial support network developing talent, and an emerging global brand as the Heartland's leading region for talent.

As a part of the first waves of region-based angel funds established and deployed, I witnessed and even felt some hallmarks of early-stage investor fatigue. For a time, some expressed disappointment at not yet seeing significant positive returns from portfolio investments. A myriad of reasons contributed to this, as many of us—on both sides of the table—were gaining hard-won experiences about best practices on due diligence, deal terms, and exits in real time and in real life. With advanced hindsight, there certainly were decision points when we might have benefited from broadening geographic scope, keeping capital reserves for follow-on funding of portfolio companies, or simply reminding ourselves that, as exciting events in 2020-21 have taught us, this asset class typically requires as much patience as it does time to realize returns.

Major developments, such as startups being able to raise up to $5 million with regulation crowdfunding, more mainstream confidence in cryptocurrency, growing popularity in values-aligned investing, increased microlending activity, and the meteoric rise of remote and distributed workers, are happening on a macro-level, and Northwest Arkansas is well-positioned to leverage what's happening in the world to feed a groundswell of economic diversity in complement to the momentum anchored by the Big Three.

...Northwest Arkansas is well-positioned to leverage what's happening in the world to feed a groundswell of economic diversity in complement to the momentum anchored by the Big Three.

As our dedicated entrepreneurial support organizations continue to attract, accelerate, and graduate multiple cohorts of small businesses, startups, and scaleups, we are continuing to do the necessary work to create a critical mass of experienced founders to inspire and to mentor others. Thoughtful efforts by Northwest Arkansas Council's programs and partners, as well as the University of Arkansas Office of Economic Development, Bentonville Collaborative, and community and industry liaisons, are making strides towards closing the acute talent gap in the region's STEAM talent pipeline, and corporations are stepping into essential roles across open innovation platforms that drive collaboration and shared learning among the entrepreneurially minded.

Ark Angel Alliance, a non-profit membership organization for accredited investors, is now operating statewide, reviewing investments and hosting community education events like Startup Investing Trivia Night. By creating and rewarding more instances in which stakeholders work together, shoulder to shoulder, on the region's most pressing challenges, Northwest Arkansas can help forge a more cohesive startup culture in Arkansas that promotes equitable exchanges of value and learning experiences. Committing to this work will go far in aligning the interests of founders and investors.

StartupNWA is focused on identifying and supporting those interested in investing with education, tools, and resources to help them self-determine and drive the impact they want to create with their investments. We'll continue to listen to and facilitate partnerships across the region to co-create community activations that bolster best practices, syndication opportunities, and key partnerships based on the community's needs."

Jeannette Balleza Collins

Director of Entrepreneurial Development of the Northwest Arkansas Council

According to the annual report produced by the nationwide Angel Capital Association (ACA), on average angel groups across the U.S. invest $2.5 million per year across 10-20 companies at a median company **valuation** of $6 million[8]. In 2020, the top sectors for angel investment were biotechnology, healthcare, eCommerce, green technology, and financial technology. Troublingly, as the ACA notes, "women and people of color remain underrepresented as CEOs of companies receiving angel capital, and we saw virtually no change from 2018 to 2020."

Angel investors often invest with a regional economic development goal or other form of societal impact in mind, and Arkansas angel groups have a history of prioritizing

[8] Timmins, R., Bolle, E., and Weissman, R. (2020). "Angel Funders Report 2020." Angel Capital Association. Retrieved from: https://www.paperturn-view.com/angel-capital-association/angel-funders-report-2020?pid=MTI120986&p=69&v=3.2

investments in the state. According to data from PitchBook, angel activity nationwide remains highly concentrated on the coasts, with pockets of strong activity in Texas and the Midwest associated with in-state funds.

VALUATION (n.): The process of determining the current fair economic value of a business. A valuation often includes an analysis of management, future earning prospects, or current market value of assets. Evaluators might review financial statements, industry operating margins, and similar companies for comparisons.

The valuation of a company heavily impacts its prospects for investment as well as the percentage of equity an investor will get for a specific investment.

"Seed funding" is typically associated with the first round of funding a business receives. This can include funding from family and friends, as well as funding from angels or venture capital firms putting in a small check (usually under $100,000).

By driving the highest-risk stage of business, a healthy angel investment community acts as a cornerstone of a strong and innovative entrepreneurial ecosystem. Angel investors also typically provide strategic mentoring and experience-based advice for entrepreneurs in their most vulnerable years, bringing value and governance to young companies. Angel activity in Arkansas has been largely intermittent over the last decade and remained at a simmer in 2020; however, 2021 signals suggest an upward trend. Significant attention has been paid to this issue in Arkansas over recent years, yielding a new statewide angel group that launched in 2020, the Ark Angel Alliance.

LIMITATIONS WITH INVESTING DATA

For this report, the majority of data on company investments was obtained from PitchBook (www.pitchbook.com), which is widely considered to be among the most comprehensive sources of capital flows to startup companies. However, as a data source it is not perfect.

The Arkansas Capital Scan team found, for example, that a $16 million venture capital deal to a company listed as being located in El Dorado, Arkansas, is actually based in Dorado, Puerto Rico. This outlier would have dramatically inflated investing trends in 2020, and the example underscores the value of combing through the data to ensure its validity. Moreover, many of the earliest investments made in firms are summarized by simply noting 'Angel round' for a company's first financing.

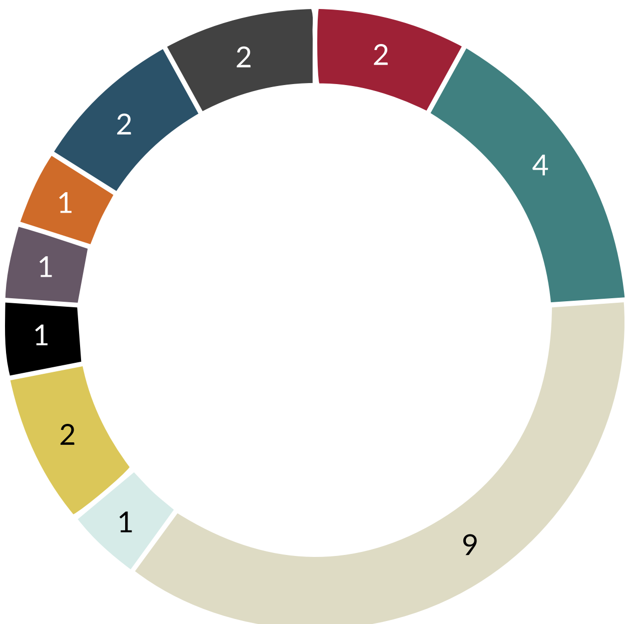
Additionally, relatively few individual angel investors are identified in PitchBook by name and much of the data is provided in investment "rounds" instead of single investments, making it difficult to assess how many investors are funding and at what levels. Given this challenge, we report on the data available while recognizing that there may be more angel investors actively investing in Arkansas than reported here, even though this data was also reviewed by knowledgeable investors working in the state, who helped identify missing deals.

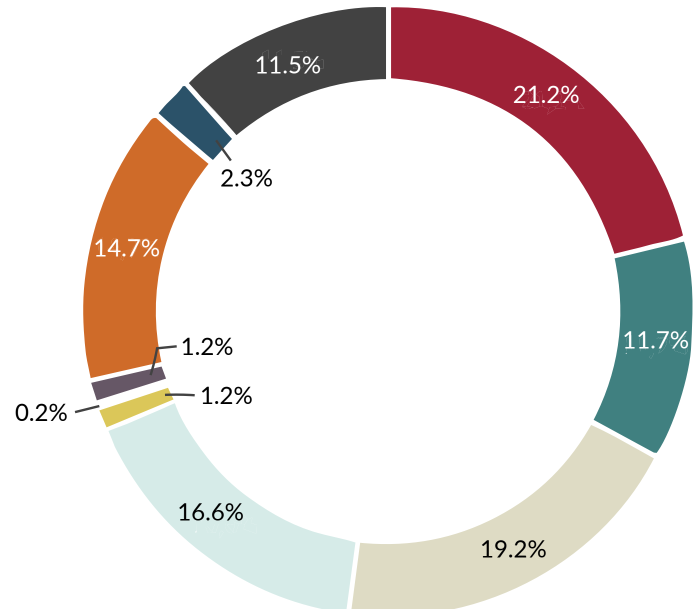
We also identified missing deals through the Capital Scan Survey. Entrepreneurs self-reported an additional seven investments that were not captured in PitchBook worth $2.82 million. For the data comparing the investments in Arkansas to comparator states, it is important to note that the comparator states data only comes from PitchBook, and could be missing deals or have inaccuracies as outlined above.

Given these limitations, the investor data here should be evaluated as generally reflective of the activity in Arkansas, but not exhaustive in nature.

2020 ANGEL AND SEED INVESTMENTS

In 2020, the majority of capital from angels and angel groups to Arkansas-based companies originated outside of the state. In Arkansas, a total of $24.1 million was invested across 25 deals.



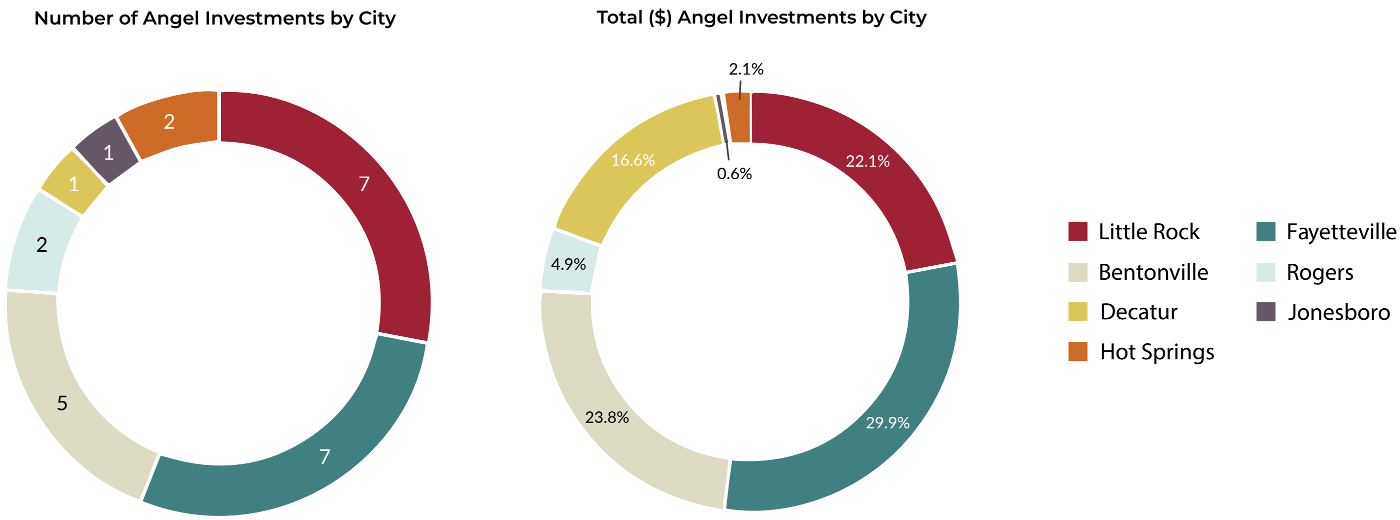


FinTech | E-Commerce | Life Sciences | Agtech | Educational | Entertainment | Retail | Business Software

The largest number of investments went to Life Sciences companies (9 investments, or 36% of all deals) while the majority of the funds invested were deployed to companies working in FinTech ($5.1 million, or 21.2% of all dollars). The two deals in FinTech were unusually large for angel/seed investment, at $3.4 million and $1.7 million.

ANGEL AND SEED INVESTMENT BY REGION

The majority of the investment flowed into Northwest Arkansas, with 60% of awards and 75.3% of all funds invested into companies based in Northwest Arkansas. Nine of the investments went to Central Arkansas ($5.82 million, 24.2% of all dollars invested) and one investment went to a company in East Arkansas ($136,000, 0.6% of all dollars invested). Our research did not uncover any angel or seed investments to businesses in other economic regions of the state.



When we look at investments by company headquarters, Little Rock (28% of all deals) and Fayetteville (28% of all deals) saw the largest proportion of activity. Examining the deals by size, Fayetteville companies received the largest share (29.9% of all money invested).

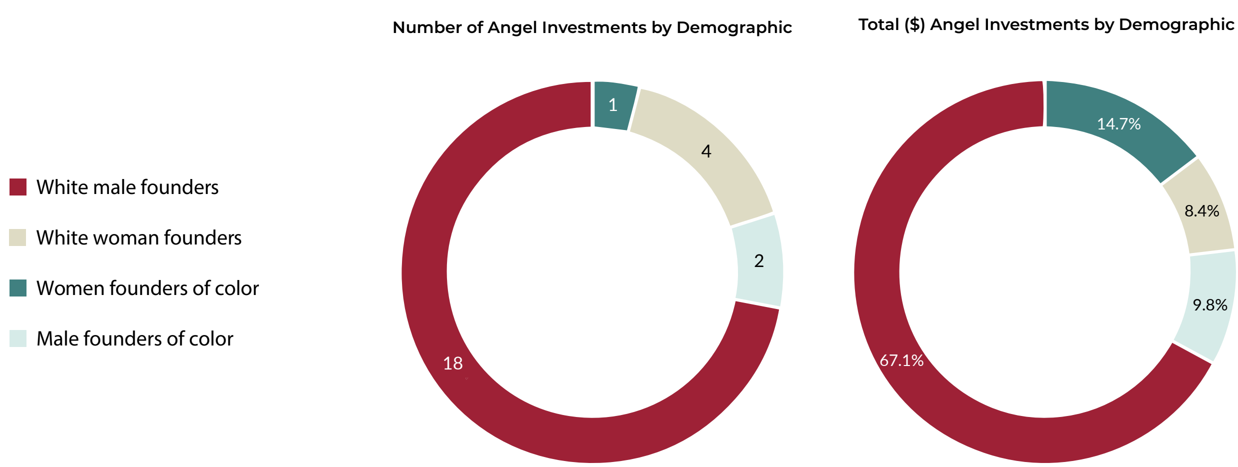
ANGEL AND SEED INVESTMENT BY SOURCE

Of the 25 angel and seed investment deals that occurred in Arkansas in 2020, we have information on the source of investment for five of them. One of the five deals received investment from an Arkansas based investor. The remaining deals were made up of investors from outside of Arkansas, with funding coming from Seattle, WA; Vernon, CA; Boston, MA; and New York, NY.

ANGEL AND SEED INVESTMENT BY DEMOGRAPHIC

PitchBook does not provide detailed information on the ownership demographics of companies receiving investment, which makes determining the demographic breakdown of investments a challenge. Given that these deals also change the structure of ownership for these companies, demographics are particularly difficult to assess.

In lieu of information about ownership shares by demographics, we assessed the majority demographics of the listed founders of the company and self-reported demographics by the companies that responded to our survey. Any data here should be considered reflective of investments in Arkansas and not exhaustive.



Assuming the data we were able to collect is representative of the whole, companies owned by white men received 72.0% of all deals and 67.1% of dollars invested. In 2020, 23.1% of all angel and seed investment dollars in Arkansas went to businesses founded by women of any racial demographic. Typically, only about 3.0% of angel or venture capital investment goes to women-owned businesses[9], so angel or seed investment in Arkansas business had significantly higher gender diversity than the national average.

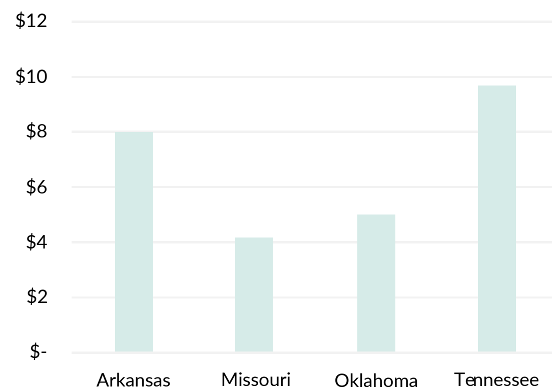
The third largest angel/seed investment in Arkansas went to a company owned by a woman of color. This was the only investment made into a company owned by a woman of color in Arkansas, and represents 14.8% of all angel and seed money invested in the state in 2020.

ANGEL INVESTMENTS IN COMPARISON

Arkansas did well in angel and seed investment by population size, receiving $7.98 in investment per capita. Among the regional peers we examined for this report, only Tennessee did better, receiving $9.68 per capita.

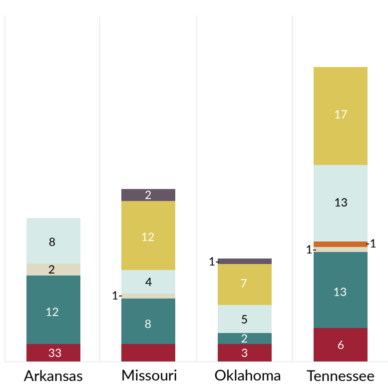
In gross investment, Tennessee outperformed all comparator states, bringing in $66.1 million in angel and seed funding through 51 deals. By comparison, Arkansas, Missouri, and Oklahoma received $68.4 million collectively through 73 deals.

Angel Investment Per Capita

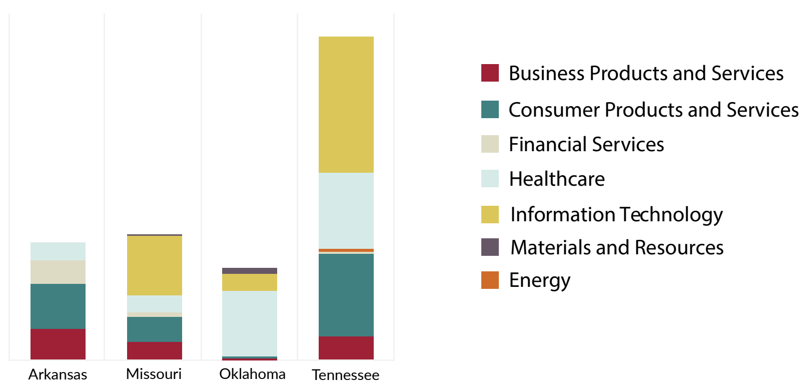


Information Technology and Healthcare stand out as the biggest differentiators between Arkansas and the comparator states in angel and seed funding. Arkansas had no reported angel investments in Information Technology, while each of the comparator states had between seven and 17 investments in companies in Information Technology. In Healthcare, Arkansas received only $3.5 million in investment, compared to $13.7 million for Oklahoma and $15.6 million for Tennessee.

Angel Investments (#) by Industry and Region



Angel Investments ($) by Industry and Region



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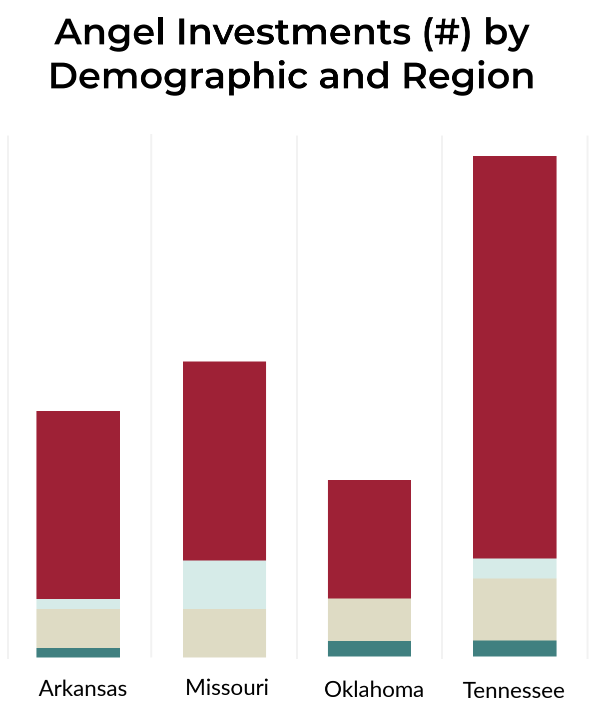
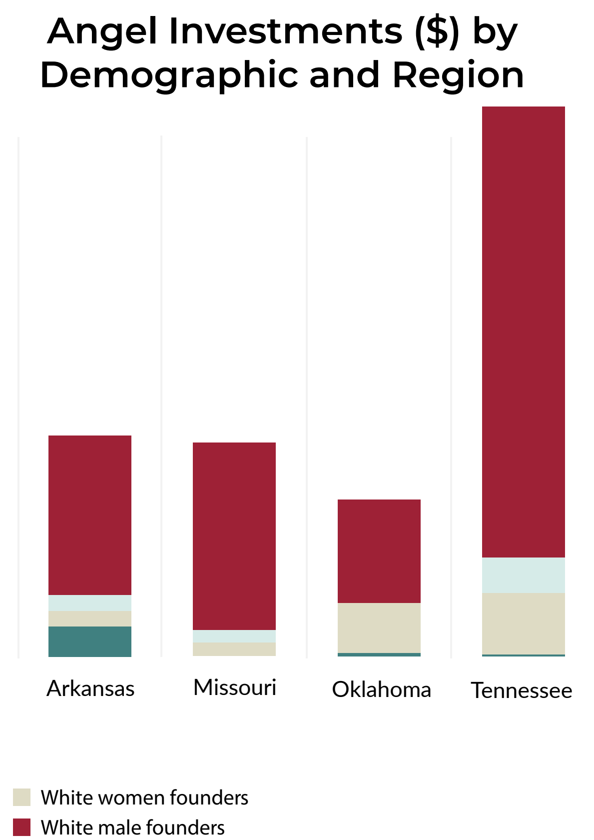
[9] Sheppard, R. (2020, Apr 8). "Only 3% of Business Investment Goes to Women, and That's a Problem for Everyone." Crunchbase. Retrieved from: https://about.crunchbase.com/blog/business-investment-to-women/

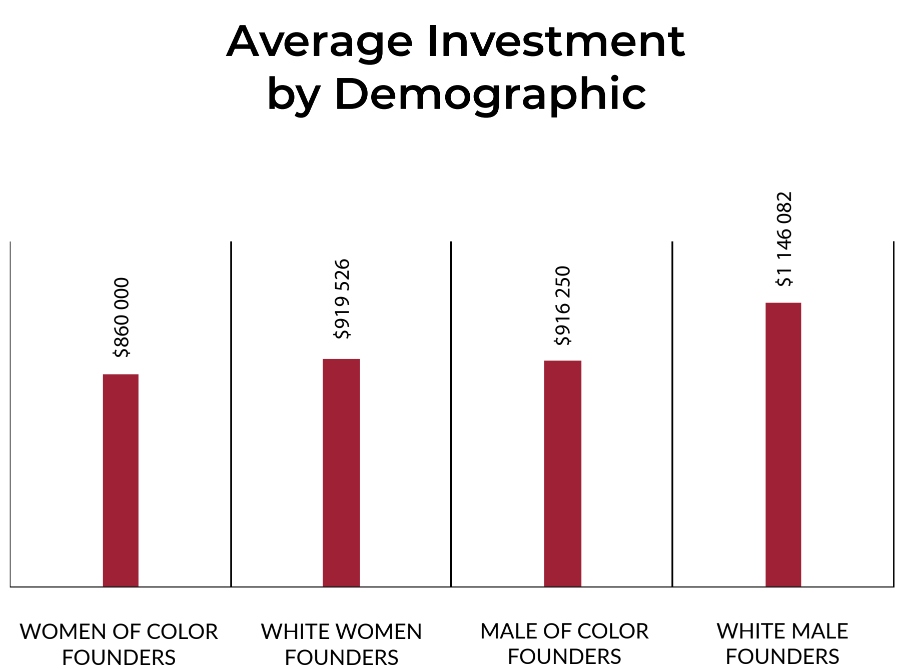
ANGEL AND SEED INVESTMENT BY DEMOGRAPHIC IN COMPARISON

When we look at the comparator states, we can see that the investments received by Arkansas businesses went to a similar demographic of businesses, with only 21.6% of invested dollars across all four states going to businesses founded by women or people of color.





Across all four states, the average angel investment for white male founders was $1,178,346. The average angel investment for women founders of color was $860,000. When the single large angel deal was removed, the average angel investment for businesses with women founders of color dropped to $180,000.



INVESTMENT SPOTLIGHT

Cooks Venture is a vertically integrated pasture-raised poultry and meat company reimagining the future of animal agriculture centered on regenerative systems. They aim to provide food that is demonstrably better for people and the planet, and meet the market demand from conscious consumers for mission-driven companies.

Founded on social enterprise principles, Cooks Venture works with small farms upstream in their supply chain to set up regenerative agricultural practices to protect the soil and sequester carbon, while still providing the crops needed for feed. Cooks Venture breeds and raises a proprietary slow-growth, heirloom chicken, taking into account the health of the animal and the health of the environment. These heirloom chickens spend their days outdoors and eat a diverse diet with better nutritional value than their competitor farms. Cooks Venture sells these chickens directly to their conscious consumers and through retail partners across the country.

Cooks Venture describes themselves as the first vertically integrated pasture-poultry company to implement regenerative agriculture. They launched in 2019 with an 800-acre farm, hatchery, and heritage breeding facility in Northwest Arkansas and two processing plants in Northeast Oklahoma. In September 2019, Cooks Venture raised $12 million in debt financing from AMERRA Capital Management, a private alternative asset management firm to refurbish an air-chilled processing facility that could produce up to 700,000 chickens per week in Oklahoma.

In January 2020, Cooks Venture announced the closing of a $4 million seed funding round led by California-based Golden West Food Group. This seed round provided Cooks Venture with the funds they needed to ramp up commercialization of their chickens and expand national distribution to wholesale and retailers. Typically, seed funding for a business is less than $2 million. However, for businesses that require significant assets for their operation (such as a poultry farm with a breeding department and a processing facility), investment rounds might be higher.

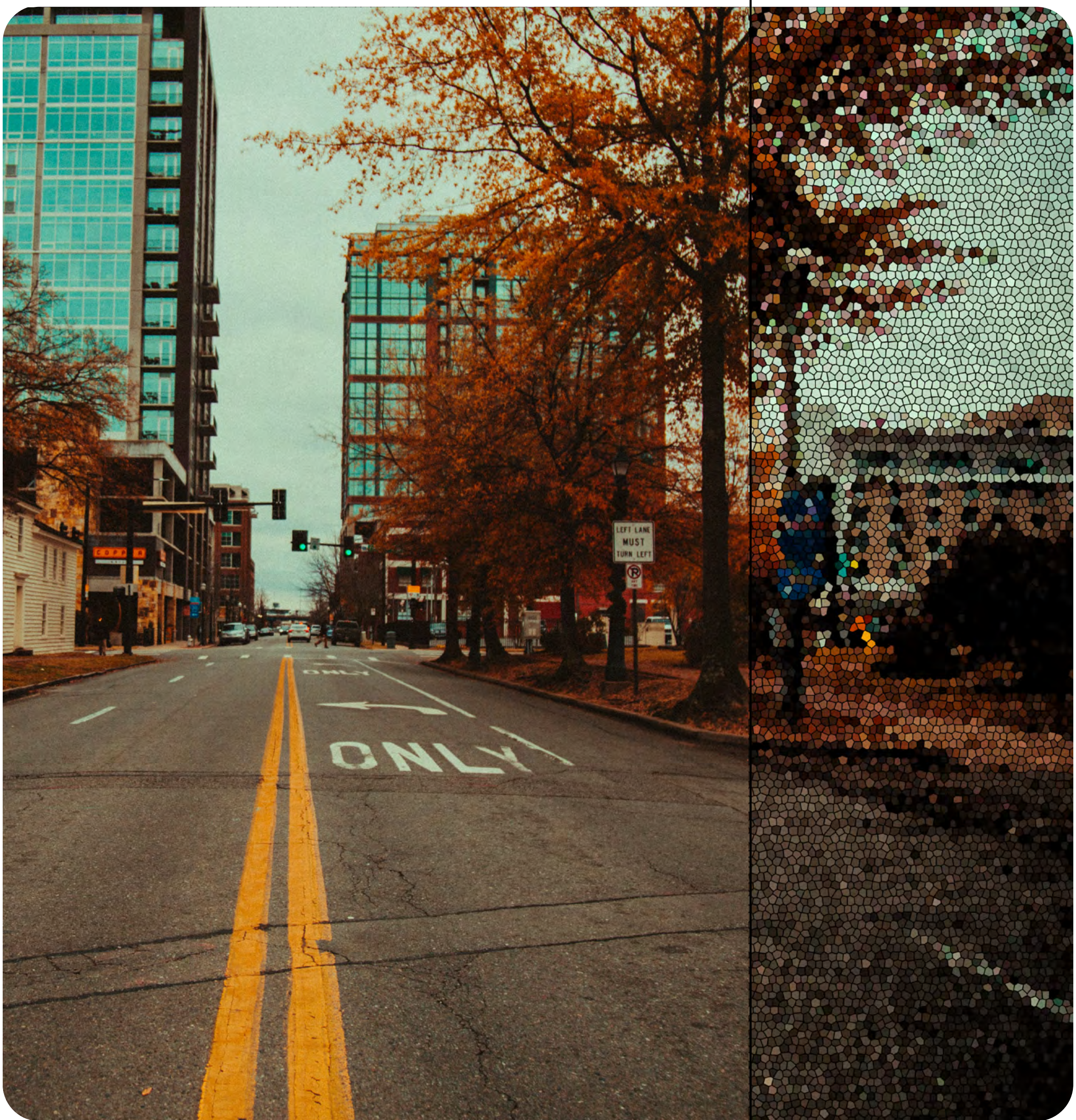
In July 2020, Cooks Venture announced a $10 million Series A investment. This round of funding was led by SJF Ventures and Chicago-based Cultivian Sandbox Ventures with participation from Larry Schwartz and John Roulac. Cultivian Sandbox Ventures is a venture capital firm focused on investing in climate-positive startups in the food and agriculture industry. These investment funds were raised to continue the expansion of their production and distribution to a national scale and to support their targeted regenerative crop management program.

While announcing the Series A investment, Cooks Venture also announced a new partnership with Food In-Depth, a scientific food testing startup that has tested Cooks Venture products for synthetic inputs. This partnership allows Cooks Venture to independently validate and verify that they do not use antibiotics or provide GMO feed to its chickens. This allows Cooks Venture to fulfill their mission of transparency and allowing their customers to know exactly what's in their food.

At the end of 2020, they planted nine small orchards of fruit trees on their 800-acre farm to promote carbon sequestration and improve land health. In 2021, they planted a silvopasture of more than 21,000 hazelnut and fruit trees throughout their network of poultry farms in Northwest Arkansas, in line with their social mission and commitment to regenerative agriculture.

Today, Cooks Venture employs 240 people and remains headquartered in Decatur, Arkansas.

VENTURE CAPITAL INVESTMENT



DOWNTOWN LITTLE ROCK, AR

INTRODUCTION

Once a startup achieves milestones specific to its industry – for example, in biotech, this might be data yielding a certain level of confidence around efficacy of a new diagnostic or therapy, while in software or consumer-focused sectors, it might be regularly occurring revenue or a growth in user base – it moves into a mode of growth that requires new forms of capital beyond angel investments, SBIR grants, and SBA-backed loans. In this growth phase, venture capital investment firms allow for large infusions of capital at a critical time for circumventing competition.

In this phase, some companies are mature enough to be eligible for non-SBA backed loans from commercial banks and credit unions. Others may pursue venture capital for firms that have chosen equity financing as a pathway.

LIMITATIONS WITH INVESTING DATA

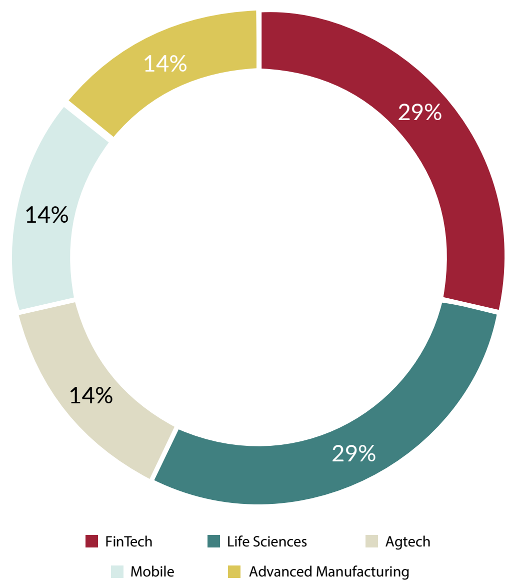
For this report, the majority of data on company investments was obtained from PitchBook (www.pitchbook.com). The Arkansas Capital Scan team also worked with knowledgeable investors working in the state to review the data to verify the data and capture any deals that were not available in PitchBook. We also surveyed and interviewed entrepreneurs about their 2020 fundraising activities. We view survey results as the more accurate data source when they diverge from PitchBook results.

As with the angel investments, the investor data here should be evaluated as generally reflective of the activity in Arkansas, but not exhaustive in nature.

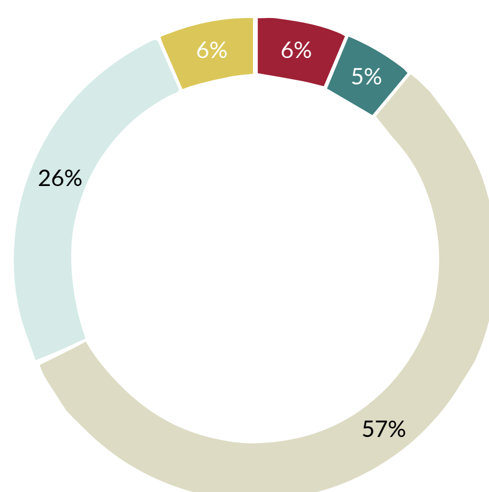
2020 VENTURE CAPITAL INVESTMENTS

In Arkansas, $16.4 million was deployed across six deals. All of these investments originated outside of the state. The number of venture capital deals were split fairly evenly across industries, but focused heavily on companies with technology solutions within their industry. Actual investment dollars were distributed less evenly, with AgTech and Mobile receiving 88.2% of total investment dollars.

Number of VC Investments by Industry



Total ($) VC Investments by Industry

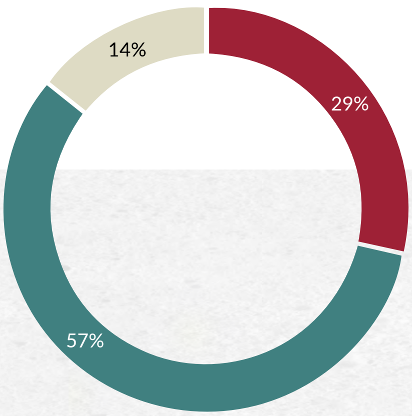


The major outlier in the venture capital space was Decatur-based Cooks Venture (Agtech), which raised a $10 million venture capital round in July 2020. This one deal represents 60.8% of all venture capital investments received by Arkansas companies in 2020.

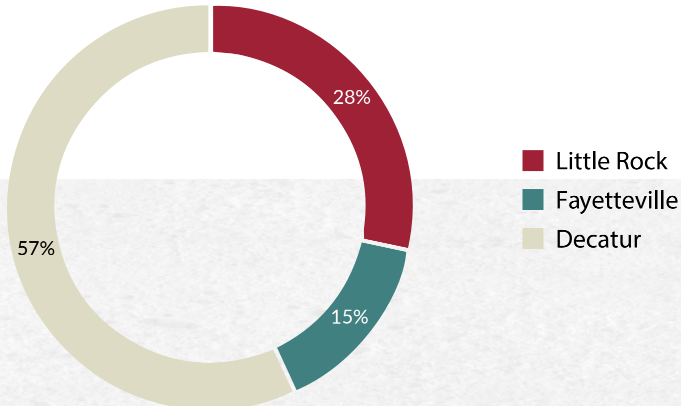
REGIONS

Similarly to what we observed in angel investment, the majority of the investments flowed into Northwest Arkansas. Out of the six deals made, 69.6% of all funds went to companies located in this region. The remaining deals went to companies based in the Central region, specifically Little Rock. No deals were made outside of these two regions.

Percentage of VC Investments by City



Total ($) VC Investments by City



When we look at investments by company headquarters, it is easier to see the disproportionate weight of the Cooks Venture deal (located in Decatur, in Northwest Arkansas). While companies headquartered in Fayetteville represented the majority of angel investment dollars, these companies represent a minority of venture capital investment dollars (8.8% of all dollars).

VENTURE CAPITAL BY SOURCE

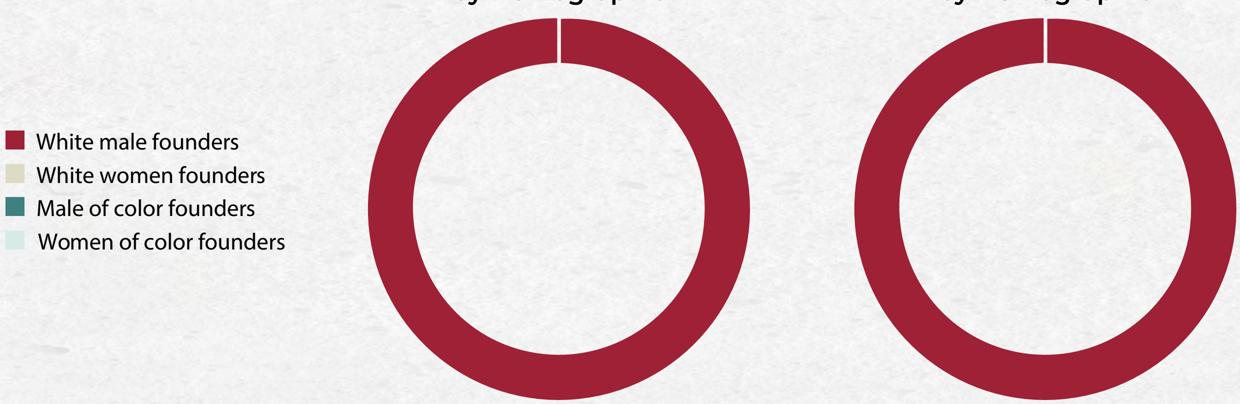
For the six venture capital deals that occurred in Arkansas in 2020, we have information on the source of investment for three of them. All three deals were made up of investors outside of Arkansas, with funding coming from Boulder, CO; Durham, NC; Chicago, IL; and St. Louis, MO.

VENTURE CAPITAL INVESTMENT BY DEMOGRAPHIC

As previously mentioned, PitchBook does not provide much information on the ownership demographics of companies receiving investment. In lieu of information about ownership shares by

Number of VC Investments by Demographic

Total ($) VC Investments by Demographic



demographics, we assessed the majority demographics of the listed founders of the company. Any data here should be considered reflective of investments in Arkansas and not exhaustive.

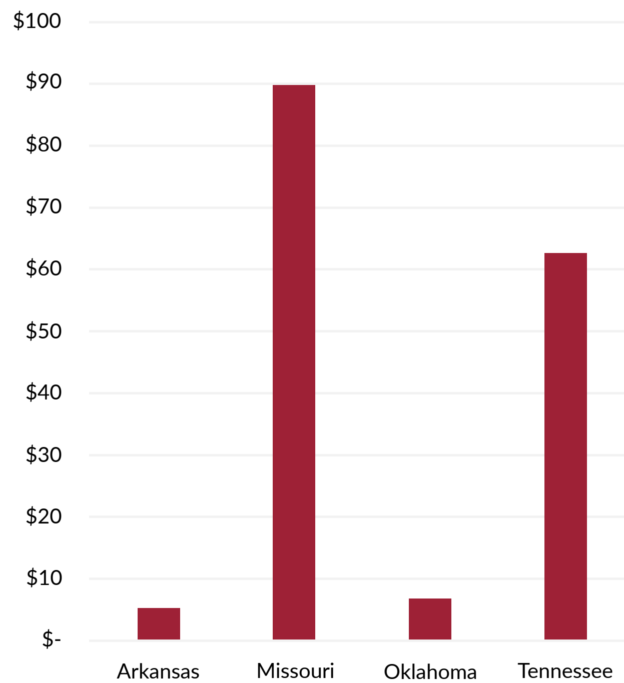
In 2020 in Arkansas, 100% of venture capital investments went to businesses founded by white men.

In theory, angel/seed investments precede venture capital and serve as a bellwether for potential follow-on investments in the future. Given the demographic breakdown of angel investments, we should be seeing additional venture capital investments in companies owned by people of color and women in the Capital Scans in the coming years.

VENTURE CAPITAL INVESTMENTS IN COMPARISON

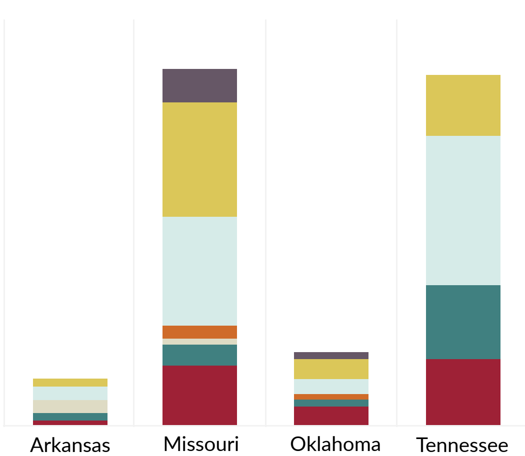
Arkansas received significantly less venture capital than the comparator states. Businesses in Arkansas received $16.4 million in venture capital (6 deals), compared to $27 million for Oklahoma (11 deals), $434.9 million for Tennessee (52 deals), and $550.2 million for Missouri (53 deals). When we look at this in comparison to relative population sizes, Arkansas received $5.45 of venture capital per capita. Oklahoma had a comparable per capita rate of investment ($6.83), while Tennessee ($63.68) and Missouri ($89.65) had significantly more.

VC Investment Per Capita

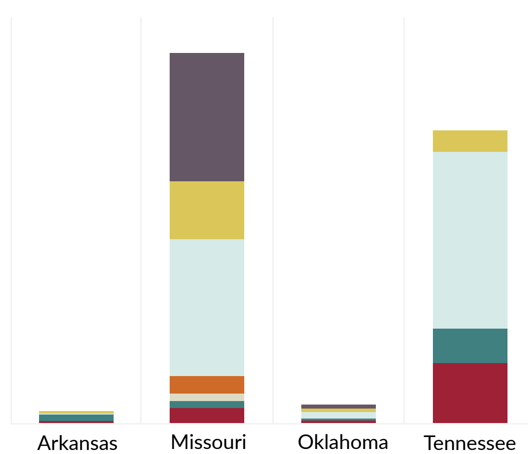


While angel investment for Missouri was fairly comparable to Arkansas, Missouri companies raised significantly more in venture capital. This was largely driven by several Series D investments, including a $159 million investment into Benson Hill. Missouri also had several large Series A investments, between $19 million and $36 million.

VC Investments (#) by Industry and Region



VC Investments ($) by Industry and Region



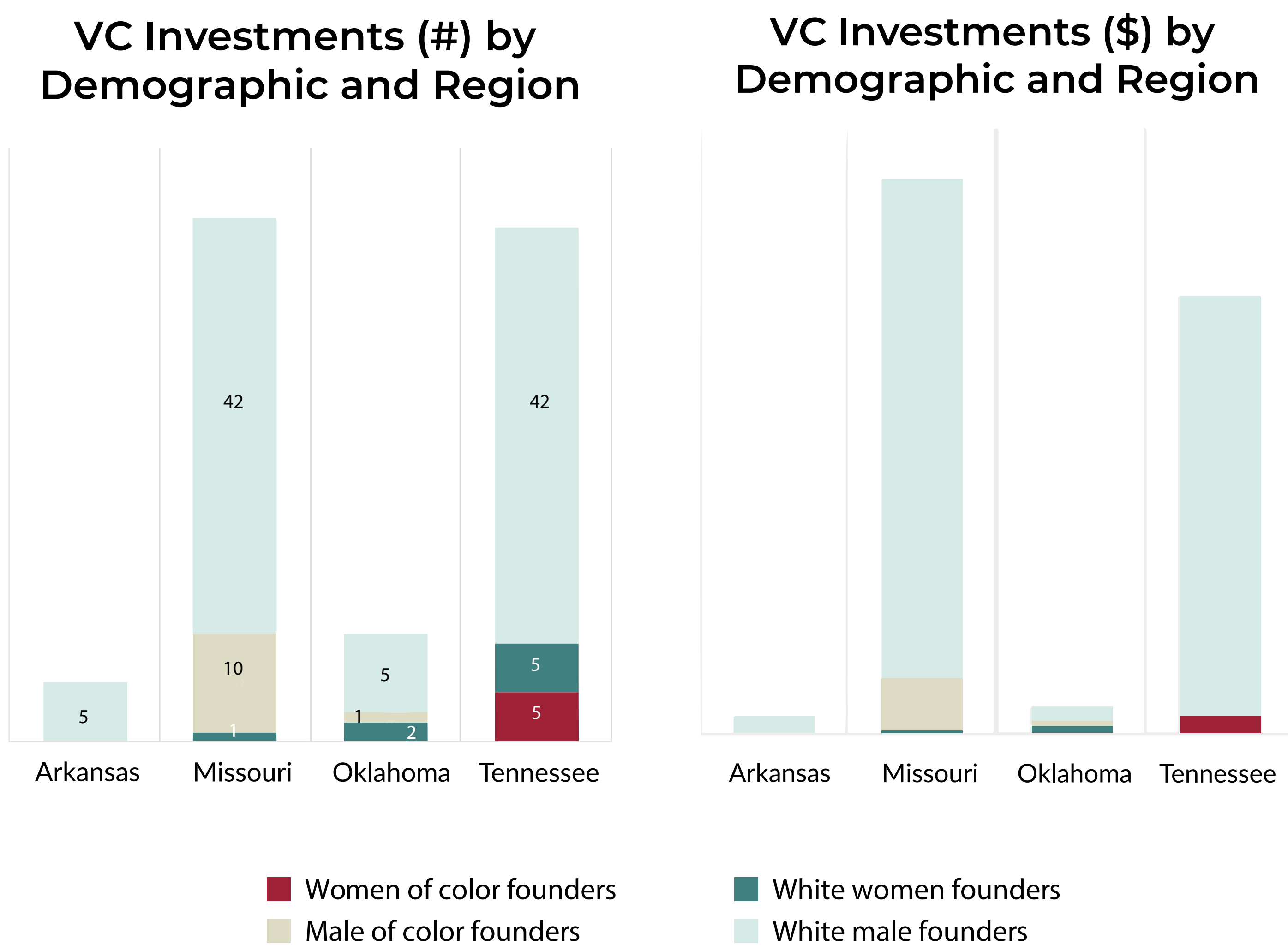
Business Products and Services | Consumer Products and Services | Financial Services | Healthcare | Information Technology | Materials and Resources | Energy

In Tennessee and Missouri, most of the deals were made in the Healthcare and Information Technology industries. While the Materials and Resources industry makes up a large portion of the dollars invested in Missouri, most of that is from the Benson Hill round.

VENTURE CAPITAL INVESTMENT BY DEMOGRAPHIC IN COMPARISON

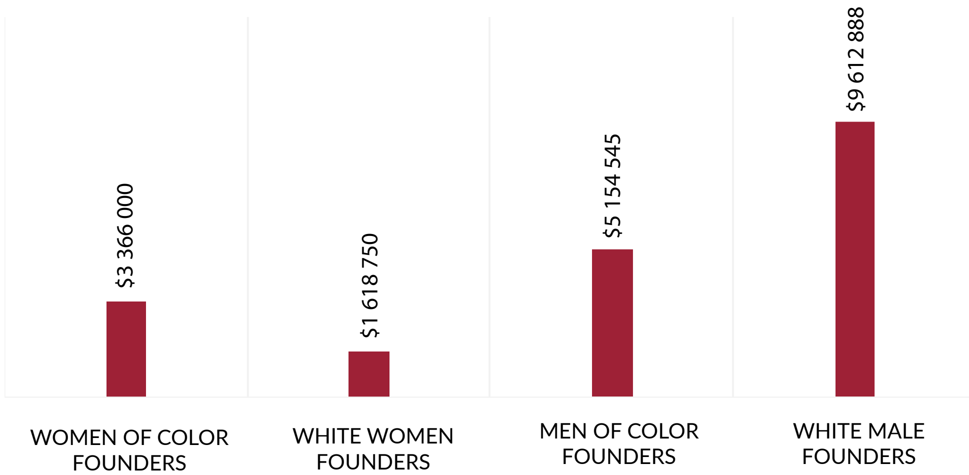
When we look at the comparator states, we can see that the investments received by Arkansas businesses went to a significantly less diverse group of businesses.

In each of the comparator states, a larger share of dollars went to businesses founded by white men compared to the number of deals, and 80.3% of all dollars invested across all four states went to these businesses. Tennessee was the only state with any investment into businesses founded by women of color, with a total of five deals capturing $16.8 million.



Across all four states, the average venture capital investment for white male founders was $9,612,888. The average venture capital investment for white women founders was $1,618,750 while the average investment for women founders of color was $3,366,000. One Series C investment of $13 million significantly increased the average investment level for women founders of color.

Average Investment by Demographic



"As an active venture and personal investor who has been immersed in the growth and support of the life science cluster in the St. Louis area for many years, I've observed first-hand the essential role played by investors who are willing to support startups at the earliest, riskiest stages of development.

The startup community in St. Louis, also benefits from local and national foundation support, state programs designed to encourage and support these enterprising entrepreneurs and a commitment from the local business leaders to provide the critical infrastructure and resources to help build great companies. Arkansas has many advantages that work in favor of entrepreneurs, including a great deal of connectivity between entrepreneurship support organizations, institutions of higher ed, state and local government, and philanthropic leaders."

Arkansas has many advantages that work in favor of entrepreneurs...

Bobby W. Sandage Jr., Ph.D

Managing Director,
Riney Family Foundation

General Partner,
Cultivation Capital Life Sciences Fund II

CAPITAL BUILDING • LITTLE ROCK, AR

INVESTMENT SPOTLIGHT

VENTURE CENTER FINTECH FUNDS

Venture Center FinTech Funds is a portfolio of angel funds based in Little Rock. The Administrator of VC FinTech Funds is James Hendren, the Co-Founder and Chairman of The Venture Center in Little Rock. The investments from the VC FinTech Funds support companies participating in the accelerators run by The Venture Center, with a focus on companies in the financial services industry, with its latest fund focusing on all companies working with the Venture Center also.

In 2016, Flutterwave, a payments startup dedicated to making it easier for Africans to build enterprises doing business globally, joined the FIS Fintech Accelerator in Little Rock. Flutterwave works with Pan-African Banks to provide companies with local currency and debit card integration services for payments. After completing the accelerator, Flutterwave received an early investment from Venture Center FinTech Funds.

In 2018, Flutterwave went on to raise $20 million through a Series A in a round led by Greycroft Partners and Green Visor Capital, with participation from Y Combinator and Glynn Capital. With the Series A investment, Flutterwave relocated to San Francisco. In January 2020, Flutterwave raised $35 million through a Series B and announced a partnership with Worldpay FIS.

And in March 2021, Flutterwave closed a Series C round at $170 million, valuing the company over $1 billion. The New York-based private investment firm Avenir Growth Capital and U.S. hedge fund and investment firm Tiger Global lead the round. As of this investment, more than 290,000 businesses use the platform to carry out payments, including Booking.com, Uber, and shows for internationally renowned artists like Cardi B.

With the Series C investment, VC FinTech Funds exited and realized a 76x return on their investment in just over four years.

The Venture Center FinTech Funds have had additional exits of their investments, all in less than five years of investment and at the time the publication of this report, they had an additional fund open for angel investors.

While this return was realized at the end of 2020, this case shows how entrepreneurship and investment can be an economic and opportunity driver in Arkansas, and the high value investors can realize if they choose to invest their money in an Arkansas-based VC firm or Angel fund.

VENTURE CAPITAL - FROM THE ENTREPRENEURS

The Arkansas Capital Scan was designed to understand the capital inflows in the state of Arkansas and identify gaps and opportunities where additional programs or funds could be deployed to help entrepreneurs connect to sources of capital.

As a part of this initiative, we released a Capital Scan Survey to gather information on any deals or other capital secured that our secondary sources did not record. We also took the opportunity to collect primary data on entrepreneurs' experience accessing capital for their businesses.

Quotes altered to maintain anonymity or improve legibility.

THINGS THAT ENTREPRENEURS HAVE FOUND HELPFUL

MOST COMMONLY REFERENCED SOURCE OF SUPPORT WERE ANGEL INVESTORS:

- *“Angel investors leading to other angel investors.”*
- *“Our current angel investors have been our most valuable asset in seeking capital.”*
- *“A number of angel investors have been supportive.”*
- *“VIC Investor Network”*
- *“Central Arkansas Angel Network.”*

ESO’S WERE SECOND MOST MENTIONED:

- *“Entrepreneurial support organizations like Startup Junkie and Innovate Arkansas.”*
- *“The best resources have been Canem at Endeavor & Jeff Amerine at Cadron/Startup Junkie. They helped us find the right folks and offered intros”*
- *“Innovate Arkansas & Arkansas Risk Capital Matching Fund”*
- *Startup Junkie x 3*
- *Walton Family Foundation*
- *SBA*
- *ASBTDC*
- *AEDC and Consultants*

GAPS IN FUNDING AND SUPPORT REPORTED BY ARKANSAS ENTREPRENEURS

GENERAL

- *“Equity investor tax incentives”*
- *“In 2020 less than 1% of black founders were funded but I wonder out of that percentage how many were women? And how many of those were women from Arkansas?”*
- *“One gap I see in speaking with other entrepreneurs is a resource to help them know what capital is available for their industry. Most of us just painstakingly self-fund until we make it.”*
- *“Resources to identify network investors that are not so expensive.”*
- *“Arkansas investors generally are not open to investing in our specific industry. I would have to go out of state to get funding.”*

LIFE SCIENCES/HEALTHCARE

- FDA device funding”
- “All the money in medical devices is going into software. If you have a widget, it is difficult to get any attention or time from VCs.”

REGION

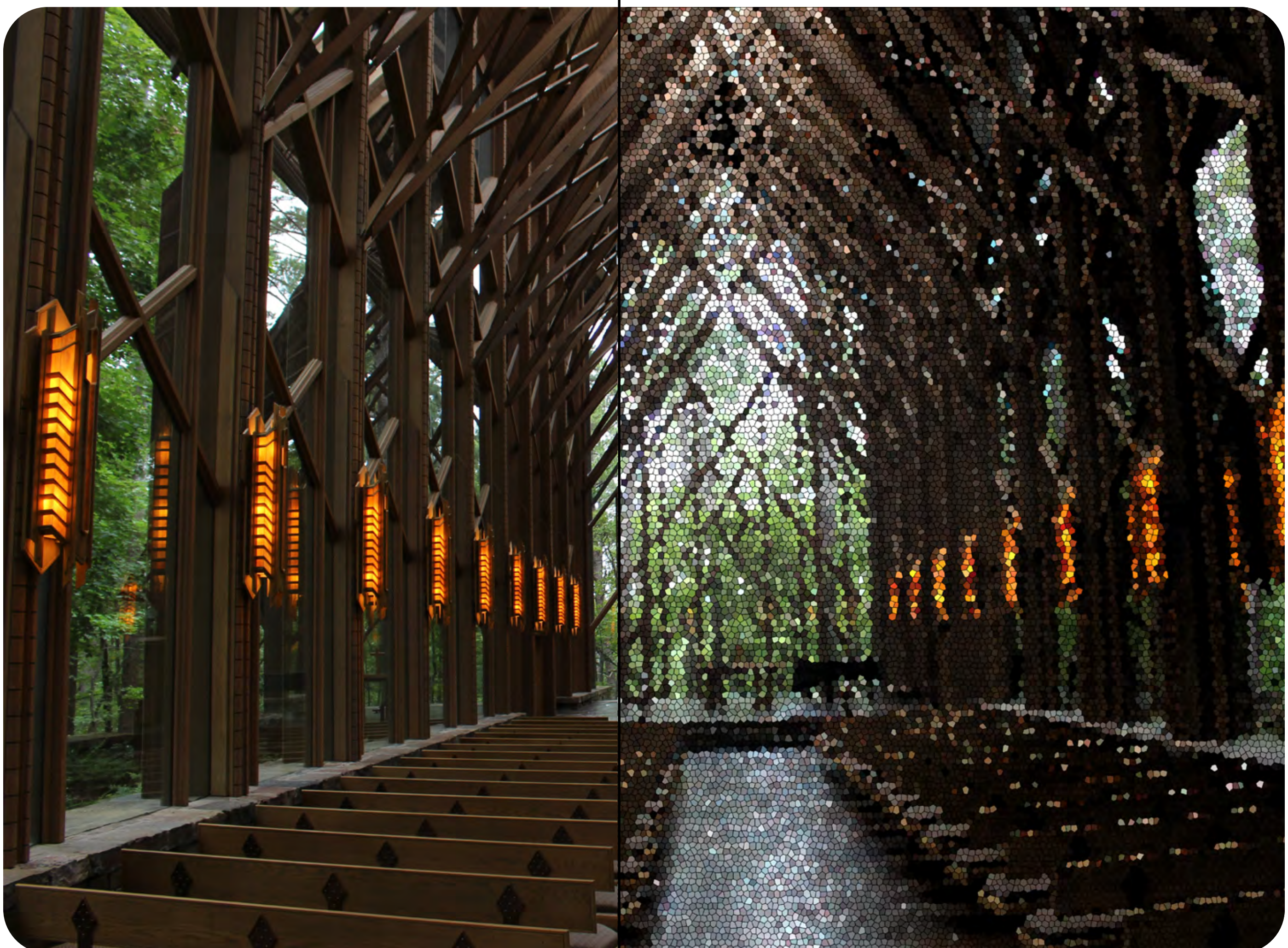
- “There appears to be a lack of capital opportunities in the Central Arkansas area. There are lots of opportunities for Arkansas companies in the NWA region that do not extend to the rest of the state.”

EARLY STAGE

- “Early-stage (pre-seed and seed) institutional capital has been notably absent.”
- “There was not much in the line of angel groups or early VCs that we could find.”
- “Lack of early-stage angel investors”
- “Early stage money”

LATER STAGE

- "Finding funding over $50,000"
- "There seems to be a massive gap in funds/investors in the state at the post-seed/series A stage. If you are trying to raise a ~$500K seed round, there are funds and angels in the state that make that achievable. Similarly, if you're trying to raise a $5-20M Series B, there are a few funds in the state (not many) that make that possible. However if you're raising $1-2.5M it doesn't seem like there are any funds or investors that are able or willing to participate in that size round."
    - "If there was anything that could really help fill this gap, it would be the creation of a large AR-based fund ($100-$250M) that prioritized AR based companies and operated in three spaces: Validation/Seed rounds, Series A rounds, Series B+ rounds. Industry agnostic, structured and capitalized for round over round participation, with progressive capital strategy planning from the jump. This may be wishful thinking, as capitalizing this type of fund would fall squarely on the shoulders of the high net worth individuals in the state, but the 10-year economic impact of such a fund would be enormous for the state, seeding and developing a generation of high-growth businesses across multiple industry clusters."



ST. ANTHONY'S • HOT SPRINGS, AR

NON-DILUTIVE GRANTS

INTRODUCTION

When a business owner looks at their options to fund their company's next stage or growth initiative, non-dilutive grant capital can be a very attractive option, particularly for small- to mid-sized companies that might not qualify for a traditional bank loan.

NON-DILUTIVE FUNDING (n.): **any kind of funding that does not require an equity stake in exchange for the capital. It does not reduce an owner's share of the company.**

Non-dilutive funding refers to any capital that a business owner might receive that does not require the entrepreneur to give up equity in the business. While debt financing is also considered non-dilutive funding, grants are a funding mechanism that the company does not need to pay back (avoiding the risk of financial distress from debt funding, which can be crucial for early stage firms without steady cash flows). Grant funding can be critical for particularly risky initiatives, like research and development projects, or to help a business owner weather a crisis, like the COVID-19 pandemic.

The federal government's Paycheck Protection Program (PPP) is considered a hybrid non-dilutive grant/debt program, as the funding mechanism is structured as debt, but it has a forgiveness procedure built into the program to support struggling businesses trying to keep people employed. The PPP will be covered in more detail in the section specific on COVID-19 capital programs.

SMALL BUSINESS INNOVATION RESEARCH (SBIR) + SMALL BUSINESS TECHNOLOGY TRANSFER (STTR)

FACT SHEET

The SBIR and STTR grant programs were established by the Small Business Innovation Development Act in 1982.

Federal agencies with extramural research and development budgets exceeding $100 million are congressionally mandated to allocate 3.2% of their budget for SBIR grants and those that exceed $1 billion are required to allocate an additional 0.45% for STTR grants.

Each agency administers their own grants and identifies priority topics for which they will accept proposals. Currently, eleven Federal agencies have SBIR programs and five of those agencies also have STTR programs.

Entrepreneurs looking to test and commercialize technological innovations can apply for non-dilutive grant funding for their research and development through the SBIR and STTR programs.

The SBIR and STTR programs are structured into three phases:

- Phase I establishes technical merit, feasibility, and commercial potential of an innovation. These awards are typically below $250,000 and for 12 months or less.
- Phase II funding is typically based on the success of Phase I outcomes and focuses on finishing the research and development necessary to get an innovation ready for market. The size of the award depends on the agency, but it is generally $750,000 over two years.

- Phase III funding, if available, is designed for small businesses to pursue commercialization objectives resulting from the outcomes of Phase I and Phase II activities. This funding may be structured as a non-dilutive grant, or may be structured as contracts for products, processes, or services intended for use by the government. Phase III can be important for some companies and their growth, as it can be a significant source of funding without a ceiling and comes with the right to establish sole-source contracts with the United States government.

Annually, the United States government awards $200 million in highly competitive, non-dilutive grants to small businesses and entrepreneurs across the country to foster innovation and strengthen American businesses.

2020 ARKANSAS SBIR AND STTR AWARDS

In 2020, 22 SBIR and STTR grants were awarded to 13 Arkansas companies. These grants totalled $9.2 million in investment. Of these 22 awards,15 of them (68.2%) were Phase I totalling $2.8 million (30.6% of all dollars awarded). The Phase II award (7 awards, 31.8% of awards) totaled $6.4 million. This is common for SBIR/STTR funding, as the funding floor is so much higher for Phase II awards.

STTR grants are largely similar to SBIR grants, with three distinct differences:

Small businesses are required to partner with a federally recognized research institution that does at least 30% of the work. The small business must do at least 40% of the work.

The small business and the research institution must establish an intellectual property agreement that establishes both the intellectual property rights and the rights for follow-on research and development activities.

STTR does not require that the Primary Investigator be primarily employed by the small business.

This represents a 57.1% increase in the number of awards from the previous year. In 2019, Arkansas companies received 14 awards totalling $6.3 million in investment. While that seems like a significant increase, when we look back to the previous 10 years, the number and amount of awards has stayed pretty stable.

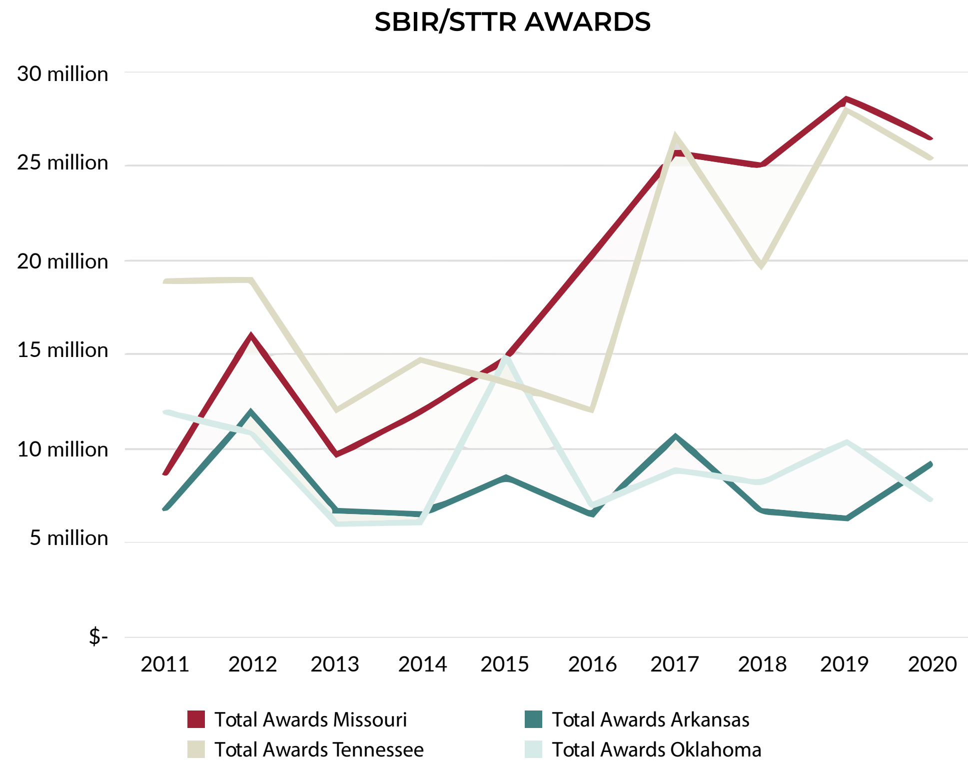
Over the last decade, Arkansas companies have received an average of 20 awards per year with an average award of $413,747.

In 2020, 81.8% of the grants were SBIR awards and 18.2% were STTR. Of the 18 SBIR awards received, six (37.4%) of them were awarded to Ozark Integrated Circuits. Of the four STTR awards received, three of them came from a single company, Nanomatronix. All three Nanomatronix awards have the University of Arkansas, Fayetteville as the partner Research Institution. The remaining STTR award was given to a partnership between Cytoastra, LLC and University of Arkansas for Medical Sciences.

Of the five companies that have driven the majority of SBIR/STTR investment, only three have received awards in the last two years: Biostratagies (14 awards), Nanomatronix (10 awards), and Ozark Integrated Circuits (23 awards). All three companies have been receiving SBIR/STTR awards since 2012.

The company who received the greatest number of awards (Arkansas Power Electronics International - 30 awards) stopped receiving awards after 2015 when they were acquired by a company in North Carolina.

The 2020 awards to Arkansas companies were also highly concentrated, with 16 of them (72.7%) awarded to companies based in Northwest Arkansas. Two awards went to one company based in the East region. Two awards went to two separate companies in Central. And one award each went to West Central and White River.



SBIR/STTR AWARDS IN COMPARISON

As a whole, Arkansas has stayed fairly stable in SBIR and STTR awards over the last 10 years. The uptick we saw in awards from 2019 to 2020 is not representative of a trend, yet.

In comparison, Missouri and Tennessee have both seen a significant growth in the number of awards, particularly in the last five years. Largely, that seems to be driven by an increase in the number of companies receiving multiple awards.

The concentration of awards to a subset of companies appears to be typical for SBIR/STTR awards. When we look at the three comparison states, we can see that a small number of companies received more than ten awards in the last ten years. These specialists seem to drive the majority of investment in the state and very few companies receive just a single SBIR or STTR grant. However, this trend seems to be much more concentrated in Arkansas.

Over the last 10 years, 45.6% of the 198 awards received by Arkansas companies were awarded to one of five companies. This is an unusually high distribution when compared to similar states, whose most prolific companies represent only about 28% of all awards. Even Oklahoma, which had a similar number of awards as Arkansas in 2020, had the awards distributed over a larger number of companies. This means that fewer companies without a specialty in accessing innovation grants have been able to access critical non-dilutive capital for research and development in Arkansas.

This puts Arkansas at a risk of a significant drop in innovation grants when a company is acquired outside the state. There is not a pipeline of companies beginning to receive the awards that can develop a specialty in securing these awards and fill the gap an acquisition like that creates. If Arkansas is able to retain these specialty companies and then build a pipeline of new companies securing SBIR or STTR awards, we might be able to see a similar growth trajectory for awards as Missouri or Tennessee.

TOTAL AWARDS TO STATE OVER DECADE

Arkansas: 193
Missouri: 411
Tennessee: 406
Oklahoma: 187

NUMBER OF COMPANIES WITH OVER 10 AWARDS

Arkansas: 5
Missouri: 7
Tennessee: 7
Oklahoma: 2

SHARE OF TOTAL AWARDS BY COMPANIES

Arkansas: 45.6%
Missouri: 27.5%
Tennessee: 27.3%
Oklahoma: 28.3%

SBIR/STTR BY DEMOGRAPHICS

Women-Owned Small Business | In 2020, only three of the SBIR/STTR awards were given to women-owned businesses (defined as being 51+% owned by one or more women and primarily managed by one or more women - self-reported). This represents 13.6% of all awards. Because two of the awards were Phase I proposals, women-owned businesses only captured 10.6% of the dollars awarded to Arkansas companies. Nationally, an average of 15% of awards are given to women-owned businesses[10], putting Arkansas slightly behind the national rate.

None of the women-owned small businesses received more than one award. Two of them were based in the Northwest region with the remaining award in the Central region.

Since 2001, only 42 of the 529 awards (7.9%) given to Arkansas companies went to women-owned small businesses.

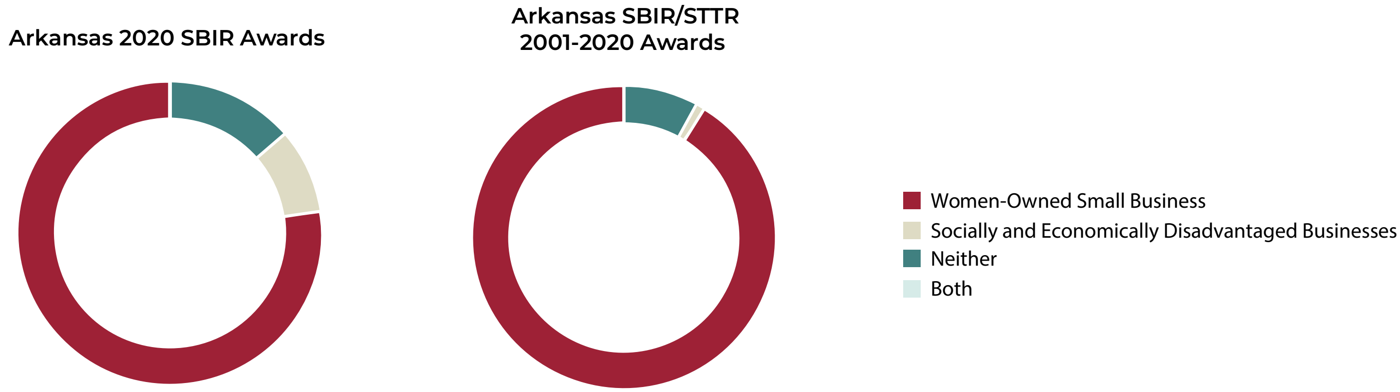
Socially and Economically Disadvantaged Small Business | In 2020, only two of the SBIR/STTR awards were given to a socially and economically disadvantaged small business (self-reported, racial or ethnical socially disadvantaged or economically disadvantaged as measured by assets and/or net worth). This represents 9.1% of all awards. Nationally, an average of 6.6% of awards were given to socially and economically disadvantaged small businesses in 2018[11], putting Arkansas ahead of the national rate for the period of this analysis.

None of the socially and economically disadvantaged small businesses received more than one award in 2020. One of them was based in the Northwest region with the other in West Central.

Since 2001, only five of the 529 awards (0.94%) given to Arkansas companies have gone to socially and economically disadvantaged small businesses, including the two awarded in 2020.

[10] Servo, J.C., Verostek, J., Smith, V., Lidoro, K., Meade, D., Johnson, K., and Pipher, T. (2020, Aug). "America's Seed Fund: Women's Inclusion in Small Business Innovation Research & Small Business Technology Transfer Programs." White Paper. National Women's Business Council. Retrieved from: https://cdn.www.nwbc.gov/wp-content/uploads/2020/08/11124006/Women-In-SBIR-Report_NWBC_Final_2020-08-07.pdf SBA. (2018). "Annual Report: Fiscal

[11] Year 2018." Report. Small Business Administration. Retrieved from: https://www.sbir.gov/sites/default/files/SBA_SBIR_STTR_FY18_Annual_Report-Final_508.pdf



In the last 20 years, not a single company that identified as both women-owned and socially and economically disadvantaged received an SBIR or STTR award.

This means that not one business owned by a woman of color or a low-income woman in Arkansas has received an SBIR or STTR award.

SBIR/STTR DEMOGRAPHICS IN COMPARISON

When looking at the comparison states, in 2020 Arkansas is slightly behind two of the comparison states in awards to women-owned small businesses and about on par with awards to socially and economically disadvantaged businesses.

However, when we look at the awards from the last 20 years, Arkansas is significantly behind in awards to both socially and economically disadvantaged businesses and to businesses that are both women-owned and disadvantaged.

It is clear that the Arkansas grants were awarded to a much more diverse group of innovators in 2020, and we will need to see if that trend continues in the coming years.

SPOTLIGHT: SCIENCE VENTURE STUDIO

Science Venture Studio (SVS) is a new initiative funded by the Walton Family Foundation to support innovators in Northwest Arkansas in securing Small Business and Innovation Research (SBIR) and Small Technology Transfer Research (STTR) funding to test and commercialize their innovations.

Many of the companies that SVS works with have never managed or even applied for federal funding, as they found the process too complicated or confusing. For people that are interested to learn more about federal funding, how early stages companies can start to fund their technology, or to simply hear about the amazing technology that is occurring throughout the state, SVS hosts quarterly sBAR networking events where companies that have received federal funding can pitch their work to the audience. In order to prepare their pitch at the sBAR, companies are paired with a pitch coach to help them develop their pitch. The goal for this type of coaching is to begin to prepare companies for when they will pitch to investors in the future.

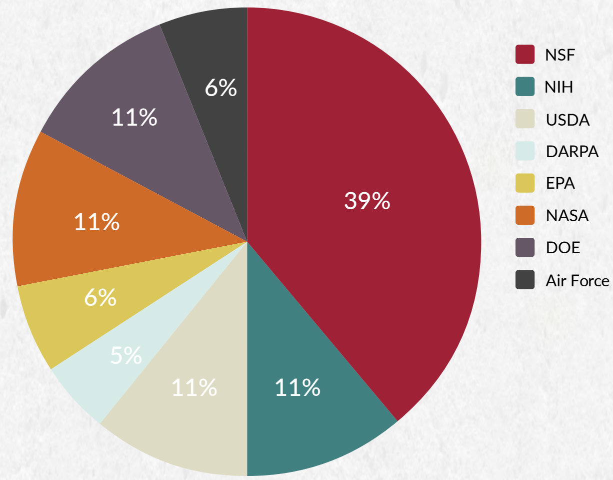
Once companies are ready to apply for funding, the SVS team works “in the trenches” with innovators and entrepreneurs to help them prepare the SBIR or STTR proposal. Alongside the director, the team includes a grant specialist, a small business advisor, and commercialization fellows from the Office of Entrepreneurship and Innovation at the University of Arkansas. The team helps the innovator secure the necessary registrations and qualifications for application and works collaboratively with the innovator to draft the application and prepare their commercialization plans. They also connect companies with technology mentors to support the development of the research and development plans and milestones.

SVS started working with companies in June 2020. In the first year of operation, they worked with 17 companies to submit SBIR or STTR applications to a number of agencies, including:

- National Institute of Health
- National Science Foundation
- United States Department of Agriculture
- National Aeronautics and Space Administration
- Environmental Protection Agency
- Department of Education
- United States Air Force
- Defense Advanced Research Projects Agency

The acceptance rate for SBIR/STTR proposals varies by agency, but nationally the average is approximately 13% for Phase I proposals[12]. To date, SVS has a **31.3% proposal success rate** with a total of **$3.2M awarded.**

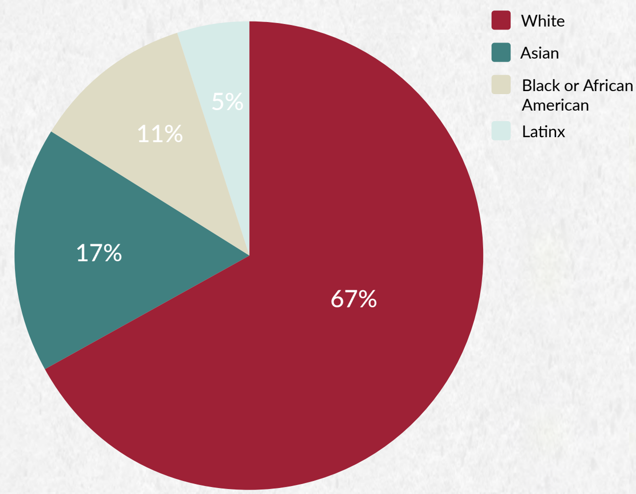
Year 1 - SVS Applications



The Science Venture Studio has worked with a broad range of founders and innovators. Of the applications submitted in the first year, 27.8% of the companies were women-owned and 33.3% were owned by an entrepreneur of color.

The SVS team is diligently working to identify more women and innovators of color that have not considered SBIR or STTR funding before for their innovations and will continue to pursue endeavors that will provide support throughout the community.

Demographics - SVS Applications



[12] SBIR. (n.d.) "Proposal Success Rate of all 2013 SBIR Phase 1 Awards (Phase 1 awards/Phase 1 proposals received)." Retrieved from: https://www.sbir.gov/node/736115

DEBT

DOWNTOWN SILOAM SPRINGS, AR

INTRODUCTION

Many entrepreneurs opt to access debt to raise capital for their business needs in lieu of giving away a percentage of their business in return for investment. For some businesses, particularly those not in industries with potential for significant scale and returns, debt is the only capital they can access. There are a variety of debt vehicles used by businesses depending on their size and need, from personal lines of credit to traditional bank loans.

This section discusses loan origination trends of Arkansas lenders for which data are available, which includes banks, thrifts, credit unions, and loans subsidized through the Small Business Administration. 2020 represents a strange outlier year to begin reporting bank loans, given the infusion of Payroll Protection Program (PPP) loans that are present in the commercial loan data set as a government response to the COVID-19 related business stimulus. We make an effort to report separately on PPP loans in the section specific to COVID-19 investments and relief, but we are unable to differentiate them from the general loans in the sections below.

COMMERCIAL LENDING AT BANKS HEADQUARTERED IN ARKANSAS

Businesses typically use commercial loans for working capital or capital expenditures. Banks and **thrifts** prefer to lend to firms that demonstrate an ability to consistently generate positive cash flows and pledge sufficient collateral. Consequently, commercial banks account for a small share of the funding to firms in early stages of growth. Nevertheless, the quarterly Call Reports provide bank-level data on outstanding small business loans, which are more likely than other bank loans to flow to young firms.

THRIFT ASSOCIATIONS (n.): Thrifts provide a variety of savings and loan services in a goal of helping members' savings grow at a higher interest rate. Thrifts typically specialize in mortgages and real estate lending. Thrifts do provide loans for commercial businesses, but by law those loans can account for no more than 20 percent of the thrift's portfolio.

Arkansas banks are eager to support small business in the state, as evidenced by a higher percentage of commercial loans to total loans relative to banks headquartered in other states. We view this as a positive appetite within the banking system to provide capital to firms once they attain a track record of revenues, or they acquire enough assets to collateralize loans.

LIMITATIONS OF BANKING DATA

Before presenting the commercial lending data, it is important to understand the limitations. The banking data on loans to small businesses are sourced from Call Reports and retrieved from the FFIEC database. Our commercial loan sample includes ten years of data for all U.S. banks and thrifts to highlight trends through time and compare Arkansas banks with banks headquartered in other states. The ideal dataset would identify loan originations each quarter and would specifically identify the loans that flow to early growth firms. Unfortunately, the Call Report data fall far short of the ideal.

First, the dataset reports loans outstanding rather than originations, so the data must be interpreted with caution. Because existing loans from prior periods remain on the books in a given quarter, changes in loan balances are more instructive than loan levels. However, even changes in loan balances from period to period provide an imperfect reflection of commercial lending activity because the changes cannot identify and remove loans that mature in the period, which leads to an underreporting of originations. Still, this data is useful to identify trends in commercial lending activity because the changes cannot identify and remove loans that mature in the period, which leads to an underreporting of originations. Still, this data is useful to identify trends in commercial lending and compare the trends in Arkansas with banks in neighboring states. The Call Reports do provide the number of commercial loans outstanding to small businesses and the aggregated volume of those loans, which allows us to compute the average loan size for each bank. The largest banks in the sample parse the commercial loans by broad loan size buckets, but most banks do not report this breakdown.

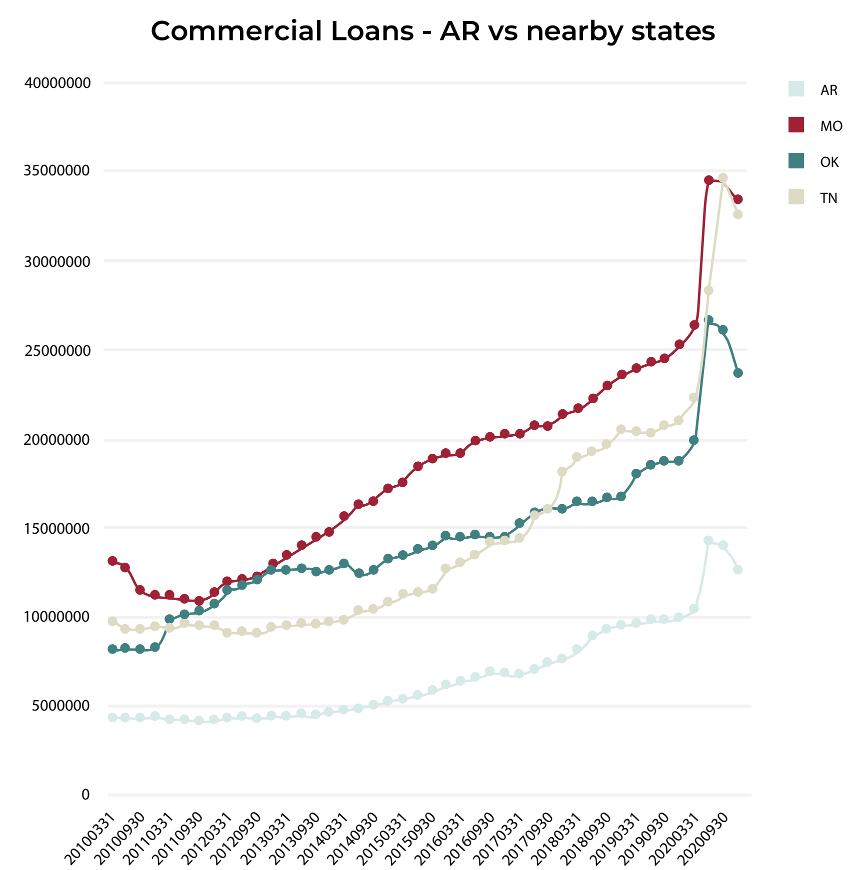
A second limitation of the banking data is that borrower information is not contained in the reports, so we know nothing about the firms' profiles. Loans to start-ups and early-stage firms cannot be measured. Further, the loan data are aggregated and reported at the bank headquarters level rather than the branch level, so we know nothing about the geographic locations of the borrowers. Loans made to out-of-state firms by Arkansas banks are included in the aggregated Arkansas bank loan volumes. Bank OZK, for example, has a considerable amount of out-of-state commercial lending on its books.

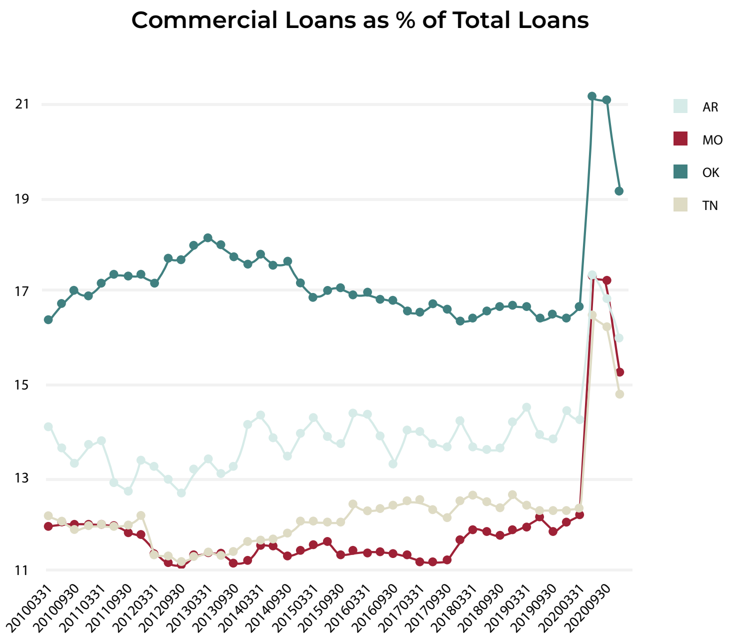
At the same time, commercial loans to Arkansas firms from banks headquartered in other states are excluded even if those banks have branches in Arkansas. For example, Arkansas-based Apptegy raised $5 million in growth-stage debt from Toronto-based CIBC during 2020. The amount was initially reported by Pitchbook as equity capital, but our team contacted the company and confirmed that this represents debt. Because community banks operate in concentrated areas and rarely cross state lines, we can reasonably assume that most loans are made in the same state as the bank headquarters. For regional and large banks, however, this assumption is not reasonable.

COMMERCIAL LENDING TRENDS

The banking industry in 2020 experienced a dramatic surge in commercial lending as firms accessed the Paycheck Protection Program (PPP) in response to COVID-19. Until the program was closed to new applicants in early August, 5,460 lenders extended $525 billion in PPP loans, most of which was booked by banks as commercial loans. In Arkansas, PPP loan originations totaled $3.33 billion in 2020.

The distortions in the volume of commercial bank lending from the PPP are clearly visible in the following charts. In future iterations of the Arkansas Capital Scan, we will be interested to compare contemporaneous lending activity to 2019 to analyze growth in lending from a pre-PPP baseline.





Overall volume of commercial lending activity (based on the quarterly dollar amount of commercial loans on the books) has picked up steam in the last half of the sample in Arkansas, at a similar pace to the growth in loans in Oklahoma, though lower than the growth in Tennessee and Missouri.

Scaling commercial loans by total loans shows that Arkansas banks lend relatively more to small businesses than Tennessee and Missouri banks, but less than Oklahoma banks. This trend holds at the national level as well when comparing the commercial loan to total loan ratio across Arkansas banks versus U.S. banks (excluding Arkansas). The more intense focus is largely driven by the higher proportion of commercial lending activity among rural and non-MSA (Metropolitan Statistical Area) banks in the sample. The trend for Arkansas banks to dedicate more of their loan portfolios to commercial loans extends to the full sample of US-banks (excluding Arkansas-banks, see chart below), though that trend reversed during PPP.

In the last 10 years, Arkansas banks have generally held more than the national average of their portfolios as commercial loans, though this number fell below the national average during the pandemic.

AVERAGE RATIO OF COMMERCIAL LOAN TO TOTAL LOANS - BY HQ MSA

Panel A	Average of cm_tl **20200331**	**20200630**	**20200930**	**20201231**	**Total Average of cm_tl**
Arkadelphia AR	13.9	20.6	19.8	18.9	18.3
Batesville AR	13.7	17.6	16.5	14.3	15.5
Blytheville AR	17.8	24.9	21.7	17.9	20.6
Camden AR	12.5	12.0	11.8	10.9	11.8
El Dorado AR	8.7	9.7	10.0	9.4	9.4
Fayetteville-Springdale-Rogers AR-MO	11.0	14.6	14.2	12.9	13.2
Forrest City AR	14.3	20.7	19.5	16.3	17.7
Fort Smith AR-OK	12.8	17.1	17.4	14.9	15.5
Helena-West Helena AR	29.6	25.8	20.6	19.4	23.8
Little Rock-North Little Rock-Conway AR	12.8	15.4	15.0	14.3	14.4
Magnolia AR	9.8	13.0	12.8	11.8	11.8
Memphis TN-MS-AR	14.2	18.5	17.3	15.4	16.3
Paragould AR	8.5	12.3	11.4	9.3	10.4
Pine Bluff AR	14.3	17.9	17.4	17.3	16.7
Russellville AR	13.2	17.1	16.9	16.1	15.8
Searcy AR	13.4	20.0	19.0	18.1	17.6
(Blank - **Non-MSA**)	15.7	18.6	18.1	17.8	17.5
GRAND TOTAL	**14.2**	**17.3**	**16.8**	**16.0**	**16.1**

DOLLAR AMOUNTS OF COMMERCIAL LOANS ON THE BOOKS OF COMMERCIAL BANKS - BY HQ MSA

Dollar amounts of commercial loans on books by MSA	20200331	20200630	20200930	20201231
Arkadelphia AR	139626	237934	230573	218483
Batesville AR	279691	377554	366336	328422
Blytheville AR	35769	57544	52191	38108
Camden AR	9056	8295	7878	7242
El Dorado AR	114198	154494	159098	136978
Fayetteville-Springdale-Rogers AR-MO	2554949	3575061	3586456	3303248
Forrest City AR	40960	70355	71387	59837
Fort Smith AR-OK	233108	325002	311955	260721
Helena-West Helena AR	45455	54016	51983	45001
Little Rock-North Little Rock-Conway AR	2773957	3651521	3526773	3180069
Magnolia AR	211801	278361	277835	257470
Memphis TN-MS-AR	119796	198237	193278	168220
Paragould AR	109413	174111	165304	138144
Pine Bluff AR	2423715	3199206	3073896	2726751
Russellville AR	122014	145527	152764	146998
Searcy AR	341187	558440	547625	524038
(Blank - **Non-MSA**)	828669	1152354	1126807	1030491
GRAND TOTAL	**10383364**	**14218012**	**13902139**	**12570221**

We can see a similar pattern when we aggregate banks by the metropolitan statistical area of their headquarters. In general, the larger MSAs in the state maintained a lower percentage of their loan portfolios in commercial loans than we see in smaller MSAs or in banks outside of an MSA. By volume, the most active MSAs for commercial lending (Panel B) are Little Rock-North Little Rock-Conway, Fayetteville-Springdale-Rogers, and Pine Bluff. Of interest in the panels above is the “Blank - Non-MSA” row, which shows that the amount of commercial loans outside of MSAs is above the mean for the state as a proportion of total loans. Small town and rural banks form a significant source of commercial lending in these areas.

COMMERCIAL BANK CONSOLIDATION AND ACCESS TO FUNDING

Bank consolidation in Arkansas has continued in recent years, mirroring the industry consolidation across the United States. Between 2015 and 2020, the number of banks headquartered in Arkansas fell from 106 to 86. Over the same period, the five largest Arkansas banks -- Bank OZK, Arvest, Simmons, Centennial, and First Security -- increased their market share dominance. These banks account for 73% of total banking assets among Arkansas-chartered banks, and their share of deposits over the past five years increased from 37% to 45%[13].

Because community banks focus more heavily on small business lending relative to large banks, a concern is that consolidation may have reduced the supply of funds available to small businesses. However, the strength of community banking in Arkansas makes this less of a concern. Relative to most states, a large share of Arkansas banks are still community banks whose market niche is small business lending. Moreover, despite the consolidation, the number of offices (headquarters and branches) of banks headquartered in Arkansas increased from 1,067 to 1,071 between 2015 and 2020 despite the rapid closing of branches across the country driven by mobile banking.

CREDIT UNION SMALL BUSINESS LENDING IN ARKANSAS

While similar to commercial banks, credit unions are member-owned financial institutions operated on a not-for-profit basis. Credit unions can be an important source of small business loans for entrepreneurs, and credit unions more than doubled their lending to small businesses between 2008 and 2016 while commercial banks were reducing their small business portfolios[14].

There are 54 Arkansas Credit Unions that originate business loans. Together, they hold $1.26 billion in total loans, with $83.3 million in "Member Business Loans" (Commercial Loans).The most active credit union in the 2020 sample is the Arkansas Credit Union in Jacksonville, AR.

COMMERCIAL LOANS AR Credit Unions[15]	DEC 2019	MAR 2020	% CHANGE	JUN 2020	% CHANGE	SEPT 2020	% CHANGE	DEC 2020	% CHANGE
Commercial Loans to Members [1 3]	63,321,053	66,497,561	5.0	66,688,594	0.3	66,688,594	5.8	78,909,496	11.9
Purchased Commercial Loans or Participations to Nonmembers [1 3]	16,473,793	16,532,172	0.4	16,594,580	0.4	16,594,580	0.0	14,453,764	-12.9
Total Commercial Loans [1 3]	79,794,846	83,029,733	4.1	83,283,174	0.3	83,283,174	4.6	93,363,260	7.1
Unfunded Commitments [1 3]	7,518,325	9,375,225	24.7	9,438,924	0.7	9,438,924	-23.1	7,599,456	4.7
TOTAL COMMERCIAL LOANS LESS	79,794,846	83,029,733	4.1	83,283,174	0.3	83,283,174	4.6	93,363,260	7.1
%(Total Commercial Loans / Total Assets)	2.61	2.59	-0.6	2.44	-6.1	2.9	2.9	2.62	4.4
NUMBER OF COMMERCIAL LOANS OUTSTANDING:[1]									
Number of Outstanding Commercial Loans to Members	196	211	7.7	219	3.8	-7.8	-7.8	216	6.9
Number of Outstanding Purchased Commercial Loans or Participation Interests to Nonmembers	20	20	0.0	20	0.0	20	0.0	17	-15.0
Total Number of Commercial Loans Outstanding	216	231	6.9	239	3.5	222	-7.1	233	5.0

As of December 2020, Arkansas Credit Unions held 233 commercial loans on the books, with 159 of those unsecured by real estate. The overall proportion of commercial loans to total loans held by credit unions is smaller than the proportion held by commercial banks. Nevertheless, credit unions still serve as an important liquidity channel for Arkansas small businesses.

Longitudinal comparisons of credit unions present a challenge based on incomplete data, and the limitations that apply to bank call report data also apply here.

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[13] FDIC. (n.d.). "Deposit Market Share Reports – Summary of Deposits." Database. Federal Deposit Insurance Corporation. Retrieved from: https://www7.fdic.gov/sod/sodMarketBank.asp

[14] SBA. (2018, Jan). "How Did Bank Lending To Small Busiensss in The United States Fare After The Financial Crisis?" Report. Office of Advocacy. Small Business Administration. Retrieved from: https://advocacy.sba.gov/2018/01/01/how-did-bank-lending-to-small-business-in-the-united-states-fare-after-the-financial-crisis/

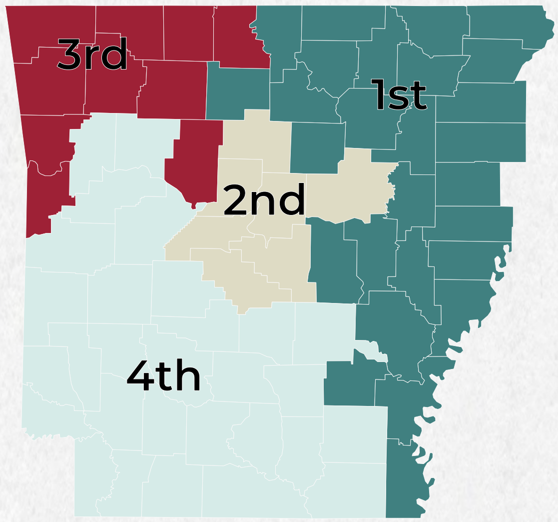
[15] Data requests for credit union financial performance reports were made from https://fpr.ncua.gov/FPRRequestSet.aspx

PAYCHECK PROTECTION PROGRAM

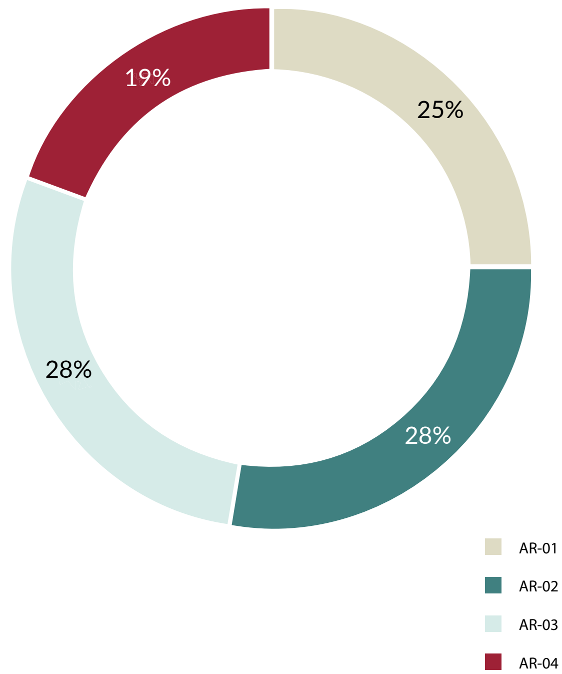
The Paycheck Protection Program (PPP) is a small-business loan program established by the CARES Act to ensure businesses could continue to pay their workers through the pandemic. These low-interest private loans could be used to cover payroll, rent, interest, and utilities and could be partially or fully forgiven if the business uses the loan to keep employee count and wages stable. The original CARES Act provided $349 billion to this program and the PPP and Healthcare Enhancement Act added an additional $320 billion to make the total program $669 billion.

While administered by the Small Business Administration, these loans largely showed up on the balance sheets of commercial banks and credit unions. The data is inseparable from the loan portfolios, so it has been included in this section.

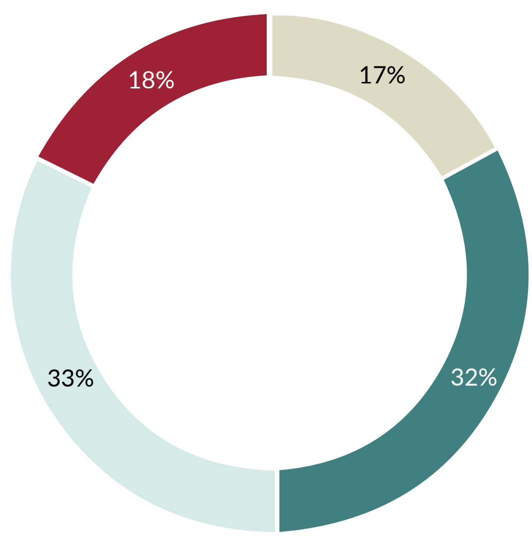
Arkansas businesses received 43,295 loans through the PPP, totaling $2.77 billion. A total of 104,700 PPP loans have been given to companies in Arkansas since the program started in April 2020. Nearly 60% of those (61,400) were given in 2021, so the full extent of the capital injection from this relief program cannot be captured in this report.



PPP loans (#) by congressional district



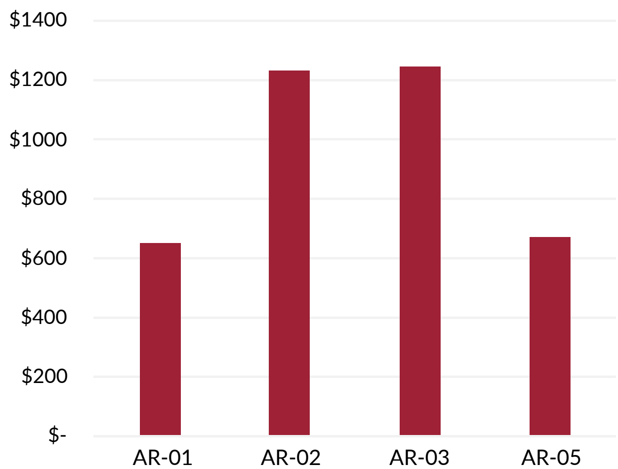
PPP loans ($) by congressional district



Unlike the other sections of this report, the PPP data is provided by congressional districts, not by economic regions. Similarly to other areas of capital discussed in this report, the 2nd and 3rd congressional districts received the majority of the loans. AR-02 received 27.7% of all loan disbursements, capturing 32.5% of all PPP loan dollars. AR-03 received 28.1% of all loan disbursements, capturing 32.8% of all PPP loan dollars.

When we look at the loans per capita, these two congressional districts (AR-02 and AR-03) received about twice the loans per capita than the remaining districts. Each of these congressional districts received fewer loans and the loans they did receive were up to 42% less than the 2nd and 3rd districts.

PPP Loans Per Capita

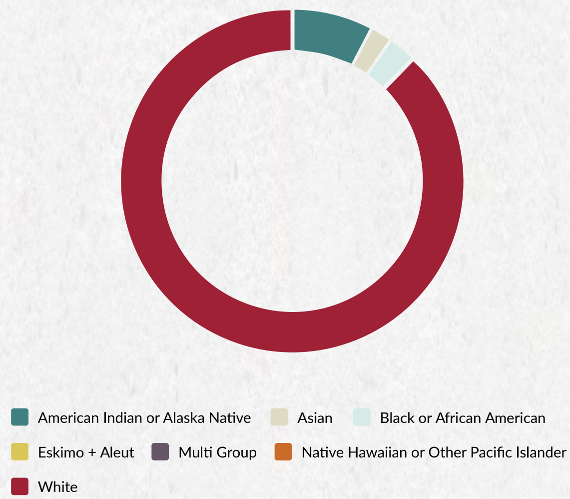


PPP LOANS BY DEMOGRAPHIC

The majority of forgivable PPP loans in Arkansas in 2020 were not tracked according to the race ($2.25 billion in loans, representing 81.6% with unanswered demographic data) or gender ($1.88 billion in loans, or 66.9% of overall PPP loans). Within the available demographic data on PPP distribution in Arkansas, the forgivable loans predominantly benefitted white borrowers, with 87.5% of all racially identifiable loans going to white borrowers.

Only 12.5% of ethnically identifiable loan dollars went to businesses of color. Of those, the largest share were classified as "American Indian or Alaska Native", representing 7.6% of all racially identifiable loans. Black or African American identified businesses represented 2.8% and Asian identified businesses represented 2.1% of all racially identifiable PPP loan dollars in 2020.

PPP Loans by Demographic



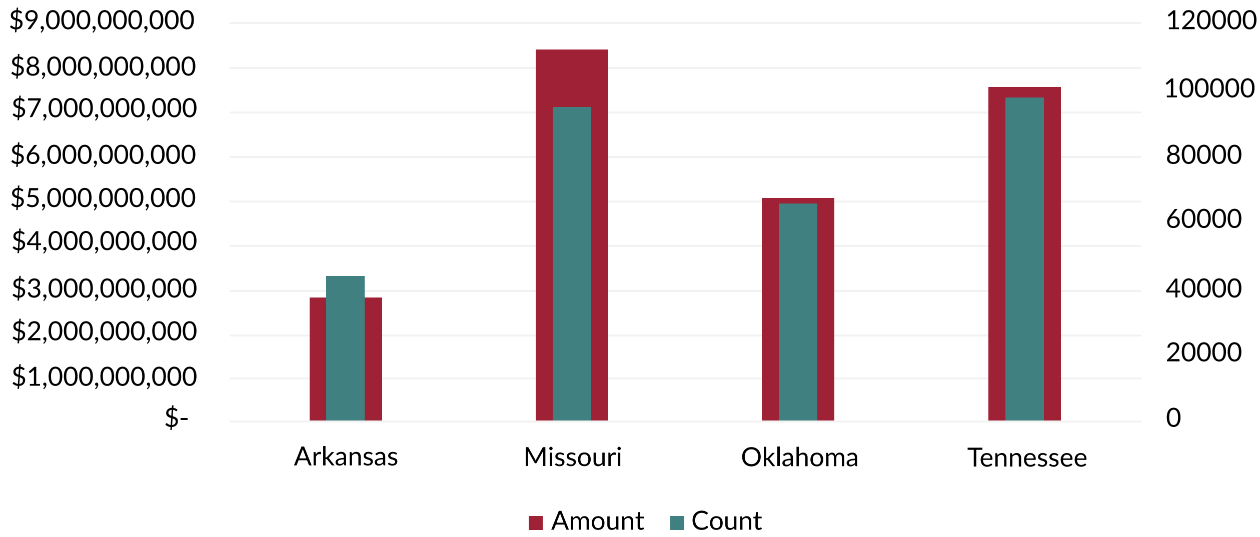
Only 1% of loan recipients reported their ethnicity. Of the ethnically identifiable businesses, 60.4% of loan dollars went to businesses reported to be Hispanic or Latino-owned but declined to state their race. An additional 22.3% of the loan dollars of those reported to be Hispanic or Latino reported to be white, with the remaining 17.2% of loan dollars going to Hispanic or Latino, non-white owned businesses.

Of the gender-identifiable PPP loans in Arkansas, 72.1% of the total number of loans went to male-owned businesses. Those loans represented 78.4% of all dollars. Rural loans accounted for 58.6% of the PPP loans in Arkansas in 2020, while urban loans accounted for 51.8% of the dollar amount of 2020 PPP loans in Arkansas.

PPP LOANS IN COMPARISON

Arkansas received significantly fewer PPP loans in both number and amount. In 2020, businesses in Arkansas received 45.2% less in loan dollars compared to Oklahoma and 67% less than Missouri. This was partly driven by the number of loans received (43,295 compared to 65,762 for Oklahoma and 97,837 for Tennessee) and partly by loan size. The average loan size for Arkansas was $64,028 while it was $76,939 for Oklahoma, $77,354 for Tennessee, and $88,732 for Missouri.

Total Loans by State

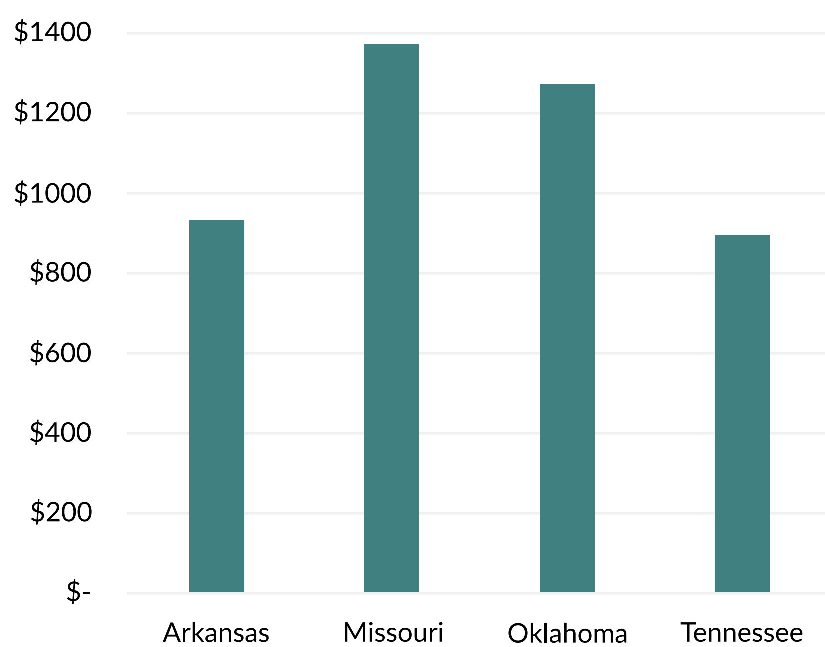


When we look at the data in comparison to relative population sizes, Arkansas received $919 in loans per capita while the comparator states received $1,100 to $1,400.

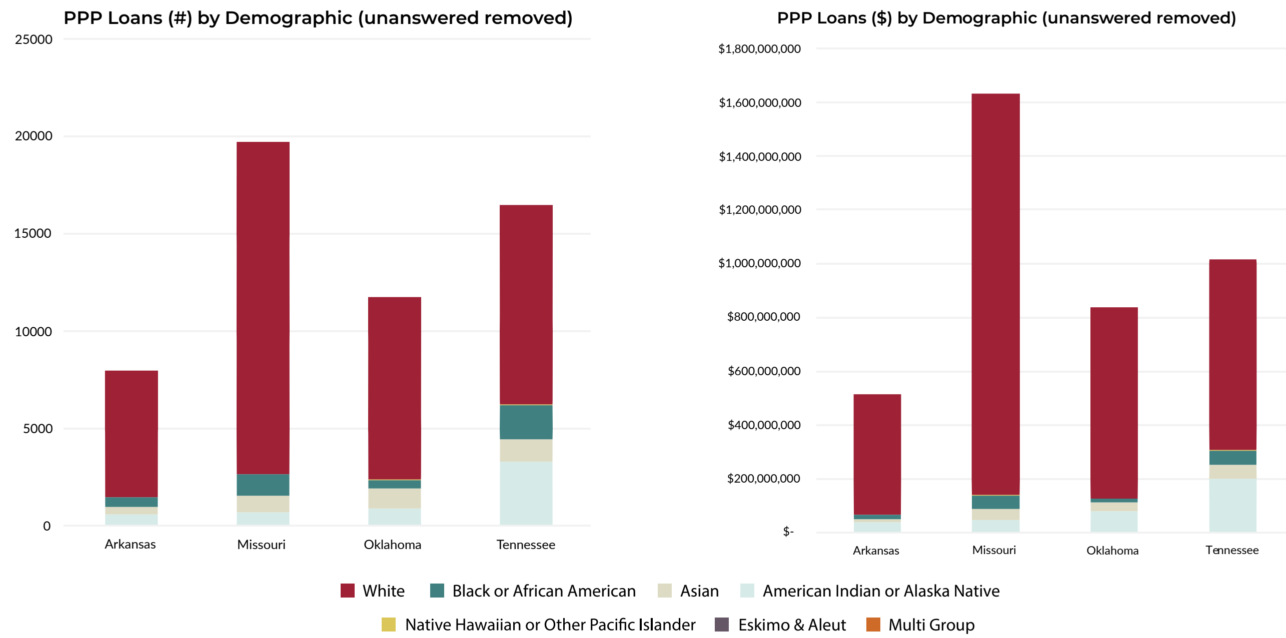
PPP LOANS BY DEMOGRAPHICS IN COMPARISON

While Arkansas businesses received fewer PPP loans than the comparator states, the demographic breakdown of those loans was comparable. Of the loans serviced, 81.4% of Arkansas businesses declined to report the racial demographics of the owners while 80.5 to 86.5% of the businesses in comparator states declined.

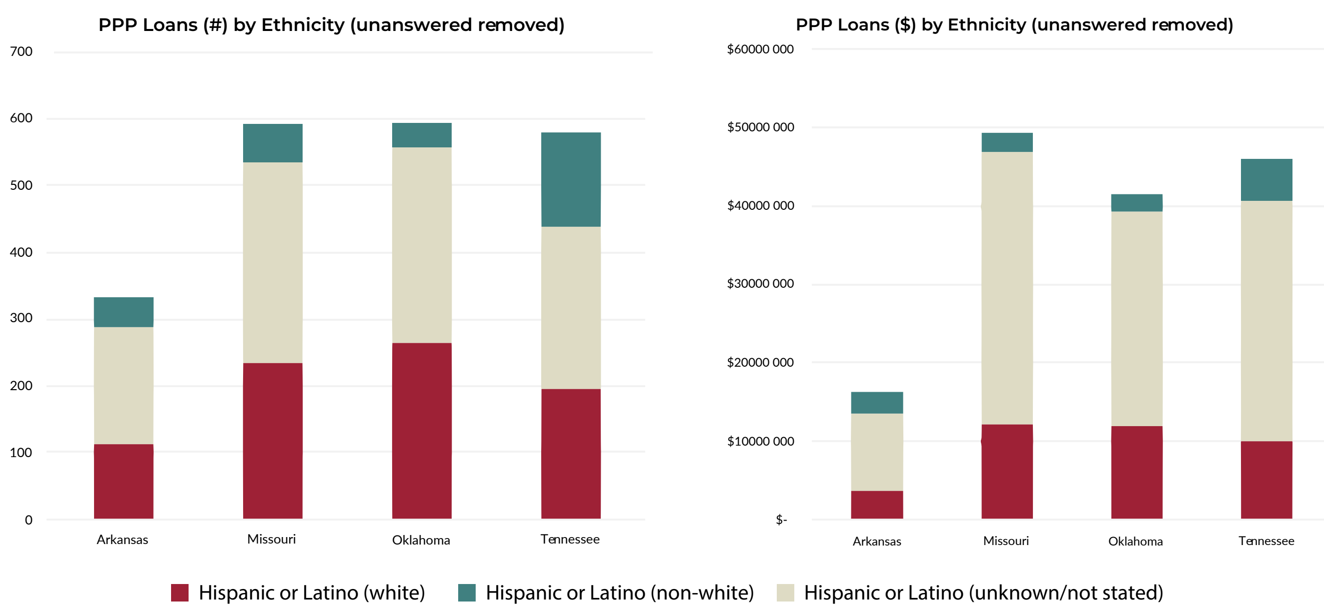
PPP Loans Per Capita



Looking at the demographically identifiable data, 12.5% of all PPP loan dollars went to businesses owned by people of color in Arkansas. Tennessee had the most diverse loan portfolio, with 30.1% of all PPP loan dollars while Oklahoma and Missouri had a comparable distribution to Arkansas (15.0% and 8.5% respectively).



Across all comparator states, ≤1% of loan recipients reported their ethnicity. Of those ethnically identifiable, a significantly larger share of the PPP loan dollars went to white-owned businesses. Arkansas had more ethnic and racial diversity in the PPP loans, with 17.2% of identifiable loans going to non-white Hispanic or Latino-owned businesses compared to 5.1% to 11.7% for comparator states.



Of the gender-identifiable PPP loans, Arkansas gave a larger percentage (21.6%) of the PPP loan dollars as compared to the other states, which only gave 18.0% to 19.6% of the total loan dollars to women-owned businesses. Because Arkansas received fewer loans, however, the total dollars loaned was still less.

SBA 504: Fixed-rate SBA loans for capital expenditures (long-term assets, such as land and machinery).

SBA 7A: Mostly variable-rate SBA loans that can be used for short-term working capital (such as inventory purchases and paying current expenses) as well as long-term purchases (including acquiring other businesses).

SMALL BUSINESS ADMINISTRATION (SBA) LOANS

Our most detailed source of lending data for small businesses in Arkansas comes from the Arkansas Small Business and Technology Development Center (ASBTDC) data set for SBA subsidized loans. This is a preferred data source as it provides loan-level data with industry, geographic, and demographic information of the borrower. This level of detail is not available for bank or credit union loans in our samples. Note that there is considerable overlap in the samples as bank SBA lending would show up in the SBA sample and in the Call Report data for the participating SBA bank. While SBA loans do not exhaustively cover all commercial bank lending of interest in the state, they should provide significant coverage of those firms that we consider to be in the scope of the Arkansas Capital Scan.

Arkansas SBA loans in 2020 totaled $130.8 million across 301 loans, with an average loan size of $434,706. The majority ($110.66 million) of these loans were classified as 7(A)program loans (which may be used for working capital or to purchase a business), while the remaining 504 program loans, which are designed to facilitate commercial real estate transactions. The majority of these loans (170 loans totaling $69 million) were distributed to businesses in rural markets. In urban markets, companies founded by women generally accessed larger SBA loans, though there were fewer urban female founder teams represented in the sample. This trend was reversed for loans made in rural markets.

AVERAGE SBA LOAN SIZE BY GENDER, RACE, AND GEOGRAPHY:

Arkansas SBA Loans Rural Markets	#Loans	Gross Loan Amt	Average Loan Amt
Female <=50%	53	x	$493,474
Female >50%	36	x	$263,617
Male	212	x	$449,067
Rural Total	**301**	**x**	**$434,706**

Arkansas SBA loans can be further analyzed across demographic characteristics of the borrower. In Panel B, we detail the number and average size of loans across reported gender and race characteristics.

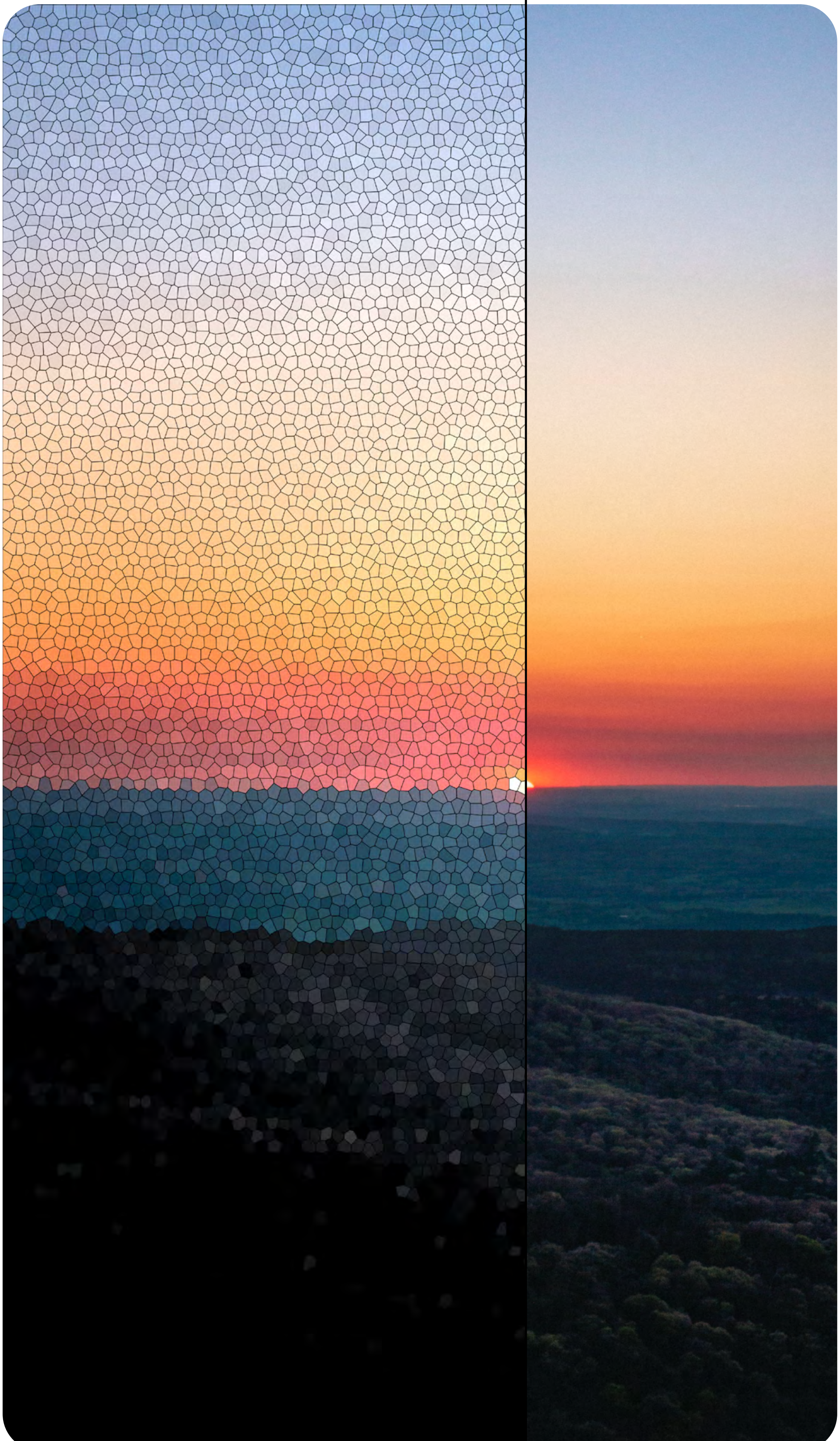
For rural areas, 59.4% of loans were distributed to businesses with white owners with 7.1% distributed to businesses of color. The remaining 33.5% of loans went to businesses with undetermined demographics. In urban areas, 34.4%t of loans were distributed to businesses with white owners with an additional 11.5% distributed to businesses of color. The remaining 54.2% went to businesses with undetermined demographics.

Arkansas SBA Loans (Panel B)	Average of Orig Gross Amt	# Loans
RURAL	**$ 408,488.82**	**170**
Female <=50%	**$ 396,342.50**	**40**
Asian Or Pacific Isl	$ 862,000.00	1
Undetermined	$ 459,400.00	4
White	$ 375,831.43	35
Female >50%	**$ 267,754.17**	**24**
Black	$ 159,650.00	2
Undetermined	$ 262,500.00	4
White	$ 280,933.33	18
Male	**$ 444,936.79**	**106**
Asian Or Pacific Isl	$ 1,838,716.67	6
Black	$ 236,500.00	2
Hispanic	$ 1,231,000.00	1
Undetermined	$ 370,063.27	49
White	$ 339,456.25	48
URBAN	**$ 468,727.48**	**131**
Female <=50%	**$ 792,338.46**	**13**
Undetermined	$ 636,925.00	4
White	$ 861,411.11	9
Female >50%	**$ 255,341.67**	**12**
Asian Or Pacific Isl	$ 458,000.00	1
Black	$ 159,333.33	3
Hispanic	$ 90,000.00	2
Undetermined	$ 664,250.00	2
White	$ 154,900.00	4
Male	**$ 453,196.23**	**106**
American Indian	$ 765,000.00	1
Asian Or Pacific Isl	$ 2,131,000.00	3
Black	$ 108,900.00	3
Multi-Group	$ 42,600.00	2
Undetermined	$ 401,538.46	65
White	$ 449,028.13	32
GRAND TOTAL	**$ 434,705.65**	**301**

The largest volume of SBA loans supported the retail trade sector, with 49 loans worth $26.2 million, creating 93 jobs and supporting 202 jobs. Manufacturing SBA loans totaled nearly $15 million, creating 107 jobs and supporting 273 jobs. Scaling the original gross amount of lending by the number of jobs created or retained gives the "employment efficiency" of SBA loans in each sector. This measure is a rough estimate of how much in SBA loans it took in 2020 to create or retain one job in a sector. The statewide SBA loan amount to create one job in 2020 was $144,263, and the SBA loan amount to retain one job was $75,610. The most efficient sectors for creating one job and retaining one job, respectively, with at least $1 million in Arkansas SBA loans in 2020 were Educational Services ($37,800, $28,000), Accommodations and Food Services ($51,553, $58,986), and Construction ($87,316, $69,054).

SBA Loans and Employment Efficiency in Arkansas by NAICS Description	**Orig. Gross Amount**	**# Loans**	**Jobs Created**	**Jobs Retained**	**Loans to Job Creation**	**Loan to Job Retention**
Retail Trade	$ 26,245,100	49	93	202	282,205	129,926
Manufacturing	$ 14,909,200	28	107	273	139,338	54,612
Agriculture, Forestry, Fishing And Hunting	$ 14,820,000	15	14	21	1,058,571	705,714
Accommodation And Food Services	$ 12,682,100	35	246	215	51,553	58,987
Construction	$ 10,565,200	49	121	153	87,316	69,054
Health Care And Social Assistance	$ 9,252,900	28	65	63	142,352	146,871
Other Services (Except Public Administration)	$ 7,305,600	21	57	260	128,168	28,098
Arts, Entertainment, And Recreation	$ 7,071,700	8	29	93	243,852	76,040
Administrative And Support And Waste Management And Remediation Services	$ 6,073,800	11	15	35	404,920	173,537
Transportation And Warehousing	$ 5,813,600	15	58	99	100,234	58,723
Real Estate And Rental And Leasing	$ 5,664,700	4	3	104	1,888,233	54,468
Information	$ 3,927,500	4	14	35	280,536	112,214
Professional, Scientific, And Technical Services	$ 3,697,900	18	28	44	132,068	84,043
Educational Services	$ 1,512,000	5	40	54	37,800	28,000
Finance And Insurance	$ 782,000	3	11	10	71,091	78,200
Wholesale Trade	$ 484,000	6	3	79	161,333	6,127
Mining	$ 25,000	1	0	0		
Utilities	$ 14,100	1	3	3	4,700	4,700
Grand Total	**$ 130,846,400**	**301**	**907**	**1743**	**144262.84**	**75069.65**

CROWDFUNDING



MOUNTAINBURG, AR

INTRODUCTION

When an innovator or entrepreneur has an idea for a potential product or service that either might not be a good fit for a traditional source of capital due to the stage or market, or if the entrepreneur does not have the network or resources to secure seed or angel investment, they might turn to crowdfunding to secure the funds they need.

Crowdfunding allows entrepreneurs to raise funds from a broad pool of small backers, rather than a large sum from one main investor or a small group of large investors. This diversifies the pool of investors and minimizes the risk for any given investor. It also broadens the pool of potential investors, as someone interested in investing is not required to have accreditation.

CROWDFUNDING (n.): The practice of funding a project or venture by raising money from a large number of people individually contributing a relatively small amount of money.

Typically, the funds from a crowdfunding campaign come in one of three forms:

- **Product or Pre-Sales:** These are the most common campaigns on platforms like Kickstarter. These crowdfunding campaigns structure investment levels with "awards" of products or services that they will be creating with the seed investment. This type of campaign minimizes the risk for the innovator, who will only invest time and money once they reach a certain level of investment. It also minimizes the risk for the investor, who typically invests a small amount and will often have that investment returned if the campaign goals are not met.
- **Debt:** The most well-known platform in this field is Kiva, which allows innovators and entrepreneurs to raise debt capital from a large number of small investors. Debt crowdfunding can be a critical way to get the funds they need for start-up at favorable terms, particularly for entrepreneurs who do not have access to traditional debt capital.
- **Equity:** This is the newest type of crowdfunding. While under product crowdfunding the investor is "buying" a product, through equity crowdfunding the investor is purchasing securities (either equity, revenue share, convertible note, SAFE, or other).

LIMITATIONS ON DATA

Data on these types of investments can be difficult to source, as the platforms are varied and are not required to report into a single entity, as is required for venture capital. The Arkansas Capital Scan team sourced the campaigns on the most common platforms by region, and leveraged the entrepreneurial community to identify any additional campaigns done formally or informally within Arkansas.

Given these limitations, the crowdfunding data here should be evaluated as generally reflective of the activity in Arkansas, but not exhaustive in nature

PRODUCT AND DEBT CROWDFUNDING

In Arkansas, to date, we have primarily seen activity in the product crowdfunding space on platforms like Indiegogo and Kickstarter, where firms pre-sell products to customers, and in the debt space with microlending platforms such as Kiva.

In 2020, we have data on four product crowdfunding deals in 2020. All four campaigns were for innovators located in Northwest Arkansas and in aggregate, they raised $72,710.

Additionally, we know of 24 debt crowdfunding campaigns done through Kiva totalling $195,500, again all in Northwest Arkansas. In 2019, Startup Junkie and the Walton Family Foundation launched the Northwest Arkansas Kiva Hub, which provides dollar-for-dollar matching funds for small loans in Washington and Benton counties through the Hub.

Crowdfunding	Dollar Amount	# Deals
KickStarter	**$ 72,710.00**	**4**
Bentonville	$ 26,627.00	1
Fayetteville	$ 36,555.00	2
Little Rock	$ 9,528.00	1
Kiva	**$ 195,500.00**	**24**
Bentonville	$ 35,000.00	3
Fayetteville	$ 88,000.00	10
Lowell	$ 8,000.00	1
Rogers	$ 19,500.00	3
Siloam Springs	$ 8,000.00	1
Springdale	$ 29,500.00	5
West Fork	$ 7,500.00	1
Grand Total	**$ 268,210.00**	**28**

EQUITY CROWDFUNDING

Equity crowdfunding in Arkansas has been less active, though recent developments in the space give room for optimism. The SEC recently relaxed the restrictions on Regulation CF crowdfunding activity, allowing for companies to raise up to $5 million through crowdfunding brokers and online portals that provide access to non-accredited investors. This is a dramatic increase from the limits that were in place during our sample period ($1.07 million), and has given momentum to a growing number of online platforms in the space.

As we look to the pool of investors that might be persuaded to provide angel and seed capital for early-stage firms, Regulation CF vastly broadens that pool beyond accredited investors by allowing investments of the greater of $2,200 or 5% of the investor's income or net worth (whichever is highest) for those investors whose annual income or net worth is less than $107,000, and 10% of annual income or net worth (whichever is highest, not to exceed $107,000) in a given year.

PRODUCT CROWDFUNDING CASE STUDY: MORE Technologies

IIn 2018, the founders of MORE ("Modular Open-source Robotics Ecosystem") Technologies brought their idea for a modular robot design to the Northwest Arkansas Startup Weekend. The idea was inspired by the younger sister of one of the founders, Canon Reeves, who wanted to learn how to build robots with her big brother. But after working through an introductory kit, Canon was disappointed to not find any other kits he could use to help his sister learn robotics.

The MORE Technologies team used the $10,000 pre-seed funding they won from the Startup Weekend and 75 pre-orders they received to launch their company. A few months later, they pitched and received $50,000 in seed investment from the Delta I-Fund Investment Committee to double their manufacturing capacity and prepare for their crowdfunding campaign.

In March 2019, MORE Technologies launched their Kickstarter campaign with pre-sales for the MOREbot, a 3D-printed robot ecosystem. The campaign levels included robotics kits, subscriptions to tutorials and community projects, and expansion options including sensors, catapults, and robot arms. They raised $21,711 through this crowdfunding campaign through 161 contributors across 23 countries. They began fulfillment of pre-orders in August 2019 and raised an additional $60,000 in 2020 from angel investors after their successful crowdfunding campaign.

All four founders were students at University of Arkansas when they founded and built MORE Technologies. They received significant support from the University, with mentors and advisors that guided them throughout the innovation and development process. Their company initially operated out of the University of Arkansas' Brewer Family Entrepreneurship Hub before joining the University of Arkansas Startup Village in 2019.

MOREbot design illustration from Kickstarter campaign

In March 2021, MORE Technologies was acquired for an undisclosed amount by Sphero, a company based in Colorado that specializes in programmable robotics and educational tools. The founders anticipate that the acquisition will allow them to scale up on the traction they made through the crowdfunding campaign and follow on orders, as they will be able to leverage Sphero's supply chain and marketing channels.

COVID RESPONSE

The COVID-19 pandemic had an unprecedented and widespread impact on businesses in the United States and throughout the world. During the height of the public health restrictions, 43% of businesses temporarily closed across the country[16]. The industries reliant on the flow of people, including tourism, hospitality, entertainment, and retail bore the majority of the closures. Industries reliant on supply chains for the products they manufactured or traded struggled with the border closures.

In order to keep the economy solvent while simultaneously shutting it down to protect people from infection, the government and private institutions created a number of programs to support businesses through this crisis. These programs have created an unprecedented capital injection into businesses that will affect the shape of the recovery and have a long-lasting impact on the trajectory of our economy.

These programs have been ever-evolving and new programs have taken shape and just started to get off the ground at the end of 2020. Reporting in this section is limited by the type of data available. While a critical tool of COVID-19 response, the Payroll Protection Plan (PPP) information for Arkansas has been included in the debt section due to data limitations.

CORONAVIRUS PREPAREDNESS AND RESPONSE SUPPLEMENTAL (CARES) APPROPRIATIONS ACT

The CARES Act was a $2.2 trillion economic stimulus bill signed into law on March 27, 2020. In total, $1.8 trillion dollars was earmarked for direct aid to individuals and businesses, representing the largest stimulus package in the history of the country. In addition to the stimulus, the CARES Act provided approximately $450 billion for the U.S. Treasury's Economic Stabilization Fund ("Main Street Lending Program") for use as loans, guarantees, and investments to help distressed companies and industries. The funds provided to the Economic Stabilization Fund cannot be reported on separately, but will show up in loan data in both 2020 and the coming years.

All together, these funds potentially amount to $4 trillion in support for businesses struggling in the wake of the COVID-19 pandemic[17]. Information specific to the Paycheck Protection Plan can be found in the debt section.

ECONOMIC INDUSTRY DISASTER LOANS

The Economic Injury Disaster Loans (EIDL) program was expanded under the CARES Act to provide support to for-profit and nonprofit businesses experiencing a temporary loss of revenue by providing debt capital for normal operating expenses.

The expanded EIDL also came with a forgivable Advance of up to $15,000 that acted as a non-dilutive grant. To qualify for up to $10,000 of the Advance, businesses had to be located in a low-income community, be able to demonstrate more than 30% reduction in revenue, and have fewer than 300 employees. For the Supplemental $5,000 of the Advance, businesses had to demonstrate more than 50% reduction in revenue and have 10 or fewer employees.

While this Advance was lumped into a larger loan and automatically forgiven, businesses were not obligated to apply for or receive

[16] Bartik, A.W., Bertrand, M., Cullen, Z., Glaeser, E.L., Luca, M., and Stanton, C. (2020, July). "The impact of COVID-19 on small business outcomes and expectations." PNAS: 116(30) 17656-17666. Retrieved from: https://doi.org/10.1073/pnas.2006991117

[17] Bartik, A.W., Bertrand, M., Cullen, Z., Glaeser, E.L., Luca, M., and Stanton, C. (2020, July). "The impact of COVID-19 on small business outcomes and expectations." PNAS: 116(30) 17656-17666. Retrieved from: https://doi.org/10.1073/pnas.2006991117

the loan to get the Advance. Anecdotally, many businesses applied for and received the Advance without ever applying for or receiving the EIDL loan. Additionally, the initial criteria for the EIDL were much broader than the current criteria listed above and did not require demonstration of income loss.

Businesses in Arkansas received 35,573 Advances through the EIDL program totalling $124,731,590 in funding. While this is a significant amount of non-dilutive grant money to flow to Arkansas businesses, far fewer Advances were given to Arkansas businesses as compared to similar states.

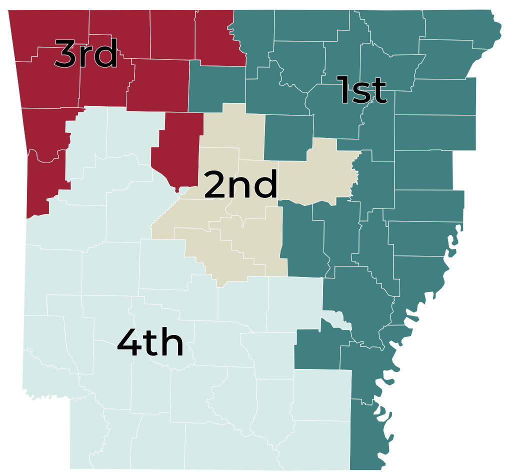
Looking at the geographic breakdown by congressional district, the majority of the Advances went to AR-02, which includes Little Rock. Their share of Advances were significantly higher than the other districts when looking at the per capita population. AR-02 received $59 in Advance funding per capita, nearly twice as much as AR-03, which includes Northwest Arkansas.

	TOTAL ADVANCE		
STATE	Count	Amount	Avg per business
Arkansas	35,573	$124,731,590	$ 3,506
Missouri	72,501	$251,033,939	$ 3,462
Oklahoma	52,018	$160,889,500	$ 3,093
Tennessee	93,481	$355,899,805	$ 3,807

CURRENT POPULATION

State: 2,915,918
District 1: 728,765
District 2: 729,193
District 3: 728,959
District 4: 729,003

**Numbers don't add up the total population because of rounding*



As of the publication of this report, the data available on the EIDL Advance was only available through November 10th, 2020. No demographic information is available for the awards.

	TOTAL			PERCENTAGE		PER CAPITA	
STATE	COUNT	AMOUNT	AVG	COUNT	AMOUNT	POP	AMOUNT
AR-01	7,817	$27,378,000	$3,502	22.0%	22.0%	719,048	$38.08
AR-02	11,940	$45,546,000	$3,815	33.6%	36.5%	767,662	$59.33
AR-03	8,528	$26,713,700	$3,132	24.0%	21.4%	829,149	$32.22
AR-04	7,252	$42,997,890	$3,447	20.4%	20.1%	701,945	$35.61

SOUTHERN OPPORTUNITY AND RESILIENCE FUND (SOAR)

A coalition of CDFIs, NGOs, and commercial banks created an additional source of funding for traditionally unbanked small businesses and nonprofits in Southern and Southeastern states in response to the COVID-19 crisis. The fund addresses affordable access to capital and offers business support services to enhance the credit of participants.

The two CDFI lenders participating in SOAR and active in Arkansas are Southern Bancorp Community Partners and Communities Unlimited. The fund aims to raise $150 million, with maximum loan amounts per business of $100,000.

NON-DILUTIVE GRANT PROGRAMS

In addition to the CARES Act funding, a number of agencies and institutions either created one-time programs to provide grant capital to ailing businesses or redirected existing funds to targeting COVID-19-related issues.

SMALL BUSINESS INNOVATION RESEARCH (SBIR) + SMALL BUSINESS TECHNOLOGY TRANSFER (STTR)

In addition to their normal funding priorities, several agencies released COVID-19-specific opportunities for rapid research and development for U.S. companies looking to respond to the pandemic and the market opportunity it presented.

Across the country, 135 COVID-19-specific awards were funded in 2020. An Arkansas company (NOWDiagnostics) received one of these awards from the National Institute of Health, totaling $937,500 to develop a rapid serological test for COVID-19 antibodies. This award represents 10.2% of all SBIR/STTR funding to come into Arkansas in 2020.

By comparison, Missouri received four awards totaling $1.6 million and Oklahoma received one Phase I award totaling $106,500. Tennessee did not receive any awards. Given that Tennessee and Missouri are comparable in the receipt of SBIR awards, it is surprising to see such a variation.

State	Phase I		Phase II		TOTAL	
	Count	Total	Count	Total	Count	Total
Arkansas	0	$0	1	$937,500	1	$937,500
Missouri	3	$611,873	1	$1,000,000	4	$1,611,837
Oklahoma	1	$106,500	0	$0	1	$106,500
Tennessee	0	$0	0	$0	0	$0
U.S.	88	$20,487,321	47	$55,829,022	135	$76,316,343

ARKANSAS BUSINESS INTERRUPTION GRANT

In October 2020, a Business Interruption Grant program for small businesses in Arkansas in the personal care, tourism, travel, recreation, and hospitality industries was launched[18]. The grants were provided in partnership between the Arkansas Department of Parks, Heritage and Tourism, the Arkansas Economic Development Commission, and the Arkansas Department of Finance and Administration.

The funds from the non-dilutive grant were to reimburse businesses for eligible expenses incurred from March 1st to September 30th due to COVID-19 mitigation and business interruption expenses. The application period was open from November 16th to 25th.

In all, $48 million in grants were awarded to 2,136 businesses through the Arkansas Business Interruption Grant program[19].

SHUTTERED VENUES OPERATORS GRANT

The Shuttered Venues Operators Grant (SVOD) is a $16 billion program established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act and then amended by the American Rescue Plan Act. This non-dilutive grant is specifically targeting the small businesses in the entertainment industry that have been particularly hard hit by the public health restrictions implemented by the government.

This program was implemented in late 2020 and began disbursing funds in May 2021, so the impact of this capital infusion will largely be felt in 2021 and 2022. As of June 25th 2021, 512 grants worth a collective $45,830,734 have been distributed to Arkansas businesses, an average of $195,025 per business.

Details about the geographic and demographic distribution of these grants will be provided in the next report covering 2021 capital investments.

COMMUNITIES UNLIMITED DELTA OWNED INITIATIVE

As part of a commitment to driving advancing access to capital to minority owned small businesses in Arkansas, the Winthrop Rockefeller Foundation and Communities Unlimited partnered to launch Delta Owned. Delta Owned provides small grant capital to help micro-businesses and sole proprietors in the Delta region of Arkansas who have not been able to access state and federal COVID-19 relief dollars.

The Delta Owned initiative was successful in providing needed capital and support to 150 small business owners in the Arkansas Delta. As a 2020 AR Equity 2025 grantee, Communities Unlimited was awarded $235,000 by the Wintrhrop Rockefeller Foundation for this program.

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[18] Arkansas, Office of Asa Hutchinson. (2021, Feb 1). Grant to Aid the Arkansas Service and Hospitality Industries [Press Release]. Retrieved from: https://arkansasready.com/news/grant-to-aid-the-arkansas-service-and-hospitality-industries/

[19] Neither geographic nor demographic data is available for these awards, but a full list of awardees can be found here: https://arkansasready.com/site/assets/files/1887/big_final_awardee_list_2-2-21.pdf.

ENTREPRENEURIAL SUPPORT ORGANIZATIONS

Entrepreneurial Support Organizations (ESOs) serve a foundational role in any entrepreneurial ecosystem, providing critical connections for entrepreneurs to resources and technical assistance in discrete areas of their business that need to improve in order to ensure they can grow. They contribute directly to the demand side of capital access and develop the pipeline necessary to entice additional capital to Arkansas companies.

Some ESOs also provide funding directly, either through grants, equity investments, or debt, depending on the instruments they have available. For example, The Venture Center has a connected investment arm that gave seed investment to Flutterwave in 2016 as a part of their FIS Fintech Accelerator (you can read more about this investment in the case study in the Venture Capital section).

Arkansas is rich with a wide network of ESOs that collaborate with each other on a regular basis. The Arkansas Economic Development Commission's Small Business & Entrepreneurship office provides an online guide to ESOs and incentive programs for small businesses and entrepreneurs across the state.

While the scope of this report does not include the depth and breadth of ESOs throughout the state, we will include information on the network of Small Business Development Centers. The U.S. Small Business Administration created and funds these networks in every state to ensure every business owner has access to resources to support their business.

ESO SPOTLIGHT: ARKANSAS SMALL BUSINESS + TECHNOLOGY DEVELOPMENT CENTER

The Arkansas Small Business and Technology Development Center (ASBTDC) helps Arkansans start, run, and grow businesses. Funded by Arkansas public institutions of higher education and the U.S. Small Business Adminisstration, ASBTDC provides a range of no-cost services, including one-on-one, confidential consulting, and affordable or no-cost training events on a variety of topics.

Established in 1980, the ASBTDC participates in a nationwide network of SBDCs dedicated to helping small businesses achieve success and to promoting economic development throughout the state. ASBTDC serves businesses from any county in Arkansas, in any industry sector, at any stage of business development.

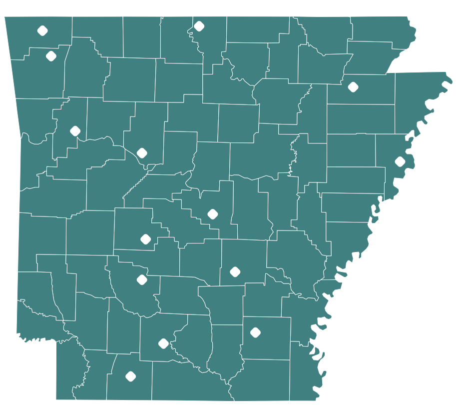
LEAD CENTER
University of Arkansas at Little Rock

Regional Offices

- Arkansas State University
- Arkansas State University Mountain Home
- Arkansas State University Mid-South
- Arkansas Tech University
- Henderson State University
- Southern Arkansas University
- University of Arkansas, Fayetteville
- University of Arkansas at Monticello

Opening soon:

- University of Arkansas at Fort Smith
- University of Arkansas at Pine Bluff



ASBTDC CAPITAL ACCESS ASSISTANCE

ASBTDC consultants can help small businesses understand the range of financing options available including personal savings and resources, friends and family, business loans, and disaster funding. ASBTDC works with hundreds of current and prospective business owners each year, helping clients determine how much money they need and which type of financing best fits those needs. In addition, as business owners seek financing, ASBTDC helps with business plans, loan proposals, financial analysis, and funding applications for clients seeking to start, expand or purchase a business.

ASBTDC SBIR/STTR ASSISTANCE

ASBTDC assists innovation-based startup companies with exploring and responding to SBIR/STTR funding opportunities. The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs provide very early stage, non-dilutive federal funding that is often critical to ready a technology for private investment and commercialization. ASBTDC guides research-capable startups through the application process, reviews proposals, and provides supporting market research to help Arkansas companies win SBIR/STTR grants and contracts.

In 2020, ASBTDC assisted companies in accessing more than $8.86 million in:
- federal SBIR/STTR Awards;
- state Technology Transfer Assistance Grants;
- and SBIR Matching Grants.

ASBTDC OUTCOME REPORTING

In 2020, ASBTDC assisted 5,876 Arkansans and helped Arkansas small businesses achieve the following results:

- $87.7 million total capital obtained
- 15,609 jobs created and retained
- 158 new business starts
- $22.9 million in increased sales

CONCLUSIONS AND SUMMARY

HERNANDO DE SOTO BRIDGE, WEST MEPHIS, AR

The Arkansas Capital Scan is a project envisioned to help understand and expand our capital inflows and the performance of venture investment in the state of Arkansas. We aim to create and maintain a view of the landscape of capital resources available to the small businesses and entrepreneurs critical to our economy.

This was an abnormal and tumultuous year to begin this Scan, but it gave us the opportunity to assess the state of capital and what Arkansas businesses were able to access while grappling with an unprecedented crisis. While the nature of the year limits our ability to project capital flows in the coming years, the 2020 data we captured does offer a number of insights:

- With the onset of the pandemic, small businesses were started at a historic rate, and innovative technology development has been on the rise for several years.
- Angel/seed investment is strong for our region, but entrepreneurs still report difficulty accessing sufficient seed capital for their businesses.
- Venture capital investment lags significantly for Arkansas companies, with the majority of investment coming in from out of state. Anecdotally, we note that a number of Arkansas businesses known to have received angel investment in prior years ended up moving their headquarters to places like San Francisco and New York when they raise their Series A or Series B.
- While businesses in the Life Sciences received a larger share of the angel/seed deals, venture capital went to a diverse set of industries. But all equity investments focused solely on technological innovations, irrespective of the industry.
- Angel/seed investments were made into a relatively diverse demographic of founders, as compared to national averages. However, 100% of the venture capital invested went to companies founded by white men.
- Companies based in Northwest Arkansas and Little Rock received nearly all of the equity investments in the state.
- Banks are a significant source of commercial lending across Arkansas, and dedicate a larger portion of their portfolios to these commercial loans as compared to the national average. Credit unions in particular serve as an important liquidity channel for Arkansas small businesses.

BULL SHOALS LAKE, AR

FUTURE FORWARD

INTRODUCTION

As mentioned previously, 2020 is the first year of the Arkansas Capital Scan. This study represents an initial step in identifying and analyzing sources and uses of capital across Arkansas's venture ecosystem. As a part of this study, we identified a number of areas of interest for further study in the following years.

DEBT | COMMUNITY REINVESTMENT ACT REPORTING

The Community Reinvestment Act of 1977 (CRA) aims to encourage financial institutions insured by the FDIC to meet the credit needs of the communities in which they are chartered, including low- and moderate-income neighborhoods. All insured banks and financial institutions of a certain asset size threshold are required to report on their performance to this end in order to apply for new locations or mergers and acquisitions.

These reports include detailed information on their small business and small farm loans that can give us a much greater insight into their portfolios, what types of businesses are supported, and where within Arkansas.

DEBT | ECONOMIC DEVELOPMENT DISTRICT LOAN PROGRAMS

A number of the Economic Development Districts have their own revolving loan programs that provide targeted loans to bridge any gaps that might exist in their regions' local financial markets. This data analysis will be interesting for understanding the full breadth of loans available to small businesses outside of the metropolitan areas and what gaps and opportunities exist by region.

DEBT AND NON-DILUTIVE GRANT CAPITAL | CITY AND COUNTY GOVERNMENTS' GRANT AND LOAN PROGRAMS

Similarly to the Economic Development District programs, a number of city and county governments have grant and/or loan programs targeting small businesses and stimulate economic activity in their region. That data was not captured in the scope of this report, but would be of interest to understanding the specific gaps and opportunities regional governments have identified in the capital market.

DEBT AND NON-DILUTIVE GRANT CAPITAL | USDA LOAN PROGRAMS

The U.S. Department of Agriculture (USDA) has a Rural Development Program "committed to improving the economy and quality of life in rural America." Most of interest to this study are the loans the USDA provides for small businesses, but they also provide grants, loans, and loan guarantees for essential services in rural areas including water, telecommunications, health care, energy, electricity, and housing. Similar to the entrepreneurial support organizations, the USDA also provides technical assistance to help agricultural producers and cooperatives start or grow their businesses.

This program will be of interest in the coming years, as the availability of loans is currently expected to increase significantly. It will also be particularly important to have a demographic analysis in this data, as the acceptance rate for applicants of color, particularly Black applicants, was recently found to be half that of white applicants[20].

EQUITY | CROWDFUNDING

A nascent field for capital nationwide is crowdfunded equity investment. As mentioned in

[20] Bustillo, X. (2021, July 5). "'Rampant issues' : Black farmers are still left out at USDA." Politico. Retrieved from: https://www.politico.com/news/2021/07/05/black-farmers-left-out-usda-497876

the Crowdfunding section, the relaxed restrictions on Regulation CF activity in early 2021 has allowed companies to raise up to $5 million equity investment through crowdfunding. Nationwide, equity crowdfunding has been on the rise, and with the relaxed regulations many investors anticipate equity crowdfunding will become more attractive to businesses that have larger capital needs. In gathering data for the 2020 Arkansas Capital Scan, the team found at least two businesses in Arkansas preparing or launching equity crowdfunding campaigns. It will be a type of investment to watch in the coming years.

EQUITY | SOCIAL IMPACT INVESTING

Another area of interest for the Arkansas Capital Scan team is the growing area of social **impact investing.**

> **IMPACT INVESTMENT (n.): "Profit with purpose" - investments that deliver social and environmental benefits as well as financial returns.**

The field of impact investing is nascent and growing enthusiastically in the state of Arkansas, though many of the specific investable impact strategies in Arkansas have been in use for years. Impact investment may target specific environmental goals (such as renewable energy or reducing waste), social goals (such as broadened access to funds for women and minority business owners), or place-based investment (such as investments in rural infrastructure and businesses in the state).

Some forms of impact investment take a sacrificial view of financial returns, where investors will accept a lower (but non-zero) return on invested capital to participate in impactful ventures, while other impact investments still strive to maximize returns while investing in sectors or founders that will make a difference. Impact is distinct from philanthropy in that investors still expect a preservation of capital and some sort of return on investment, and it is distinct from ESG screens of public firms in that it typically focuses on early-stage private market firms and social enterprises.

"How does your money make money?

"FORGE was founded by individual impact investors who sought to expand access to capital to those not served by traditional financial institutions. Individual investors still make up a substantial portion of FORGE's investors and funders. Some of those investments have been with FORGE since the early 1990's.

"Impact investing allows for financial decision-making that aligns with one's values. For some, it provides an avenue to reinvest in areas that have experienced disinvestment or extraction of wealth historically. Others want their investments to work locally and for a particular cause, mission, or community. While more traditional investments usually have the greatest returns, the disbursement across the globe and across industries puts distance between an investor and the work undertaken to bring about a return. This distance also makes values alignment more difficult to assess.

"Through local impact investing, a return is still sought and provided, but the focus on how is as important as how much?. As one seeks to take substantial, meaningful, and tangible action to better align with values long held, or new ones discovered through recent reflection, impact investments provide an existing vehicle to do so."

Philip Adams
FORGE, Inc.

This report touched on impact investment briefly with the case study about Cooks Venture, which is a rapidly growing company in Northwest Arkansas that centers regenerative agriculture practices in their business. Future reports would benefit from deeper analysis into the impact investing ecosystem, different vehicles used to make impact investments (including Program- and Mission-Related Investments from charitable foundations) and what opportunities might exist to expand this practice in the future for the betterment of all Arkansans.

DEMAND-SIDE | STARTUP SCAN

This study focuses on the supply-side of capital. While we surveyed and collected primary data from entrepreneurs about their experience and success at raising capital, we focused on the capital raised (or not raised), not the startups themselves. While it is important to have a good analysis of the supply-side of capital, the startups represent the demand-side and are just as important in the development of a robust and thriving capital ecosystem.

There is a need for a comprehensive Startup Scan to understand the availability of investment opportunities and the capital needs of startup businesses in Arkansas with an aim to identify areas where initiatives can be created to support the connection of businesses and investors.

An excellent example of this kind of report comes out of Tulane University in New Orleans. The Albert Lepage Center for Entrepreneurship and Innovation at Tulane releases the Greater New Orleans Startup Report annually to benchmark the regional startup and early-stage economy. The report has served as an important context for policymakers, business leaders, and economic development agencies whose decisions impact the businesses and entrepreneurs in the Greater New Orleans region. (https://gnostartupreport.com/)

"The Greater New Orleans Startup Report uses a comprehensive survey to gather data about early stage companies in the region. Analyzing this data draws out insights, which help area policymakers better understand firm needs – from capital and talent to workspace and mentorship. In addition to influencing policy, Startup Report data assists the Lepage Center and local support organizations in developing impactful programs and funding mechanisms."

Ann Marshall Tilton
Community Engagement Manager, Tulane University

THE COMING YEARS

In writing this report, the Arkansas Capital Scan team had the opportunity to speak and work with a number of people knowledgeable and influential in capital access in Arkansas. In looking forward to a future, we asked a number of these people to provide insights into what they see for the future for capital access in Arkansas.

ON ANGEL INVESTMENTS

"A key requirement of any thriving entrepreneurial ecosystem with significant contributions to the local economy is access to capital. Early-stage ventures need seed capital in order to take their idea from validation to market before seeking growth stage capital. These early-stage deals are often overlooked by large investment funds or venture capitalists as 'too early' and rely heavily on friends and family rounds or angel investing. Angel investors not only bring the dollars needed to fund the startup, but they also bring mentorship and syndication opportunities through networks of other angel investors, increasing funding opportunities.

"Without angel investors in an ecosystem, deals either die and the innovation never makes it to market or companies have to move to where the capital, mentors, and deal syndication opportunities are readily available. Oftentimes they move to ecosystems outside of the 'flyover' states, where angel investing is more widely accepted as a viable asset class for investment, and thus there are more angel investors. More angel investors mean more investment dollars and more opportunity. Enter Arkansas' entrepreneurial ecosystem - we've seen an increase in angel investing dollars throughout the ecosystem through funds, independent investors, and angel groups, however, the supply still doesn't quite meet the demand. In order for our ecosystem to thrive, a continued effort to create access to capital opportunities for early-stage entrepreneurs through investor education, increased investment opportunities, and deal syndication is imperative."

Grace Rains

Director of Operations at Conductor and
Executive Director at Ark Angel Alliance

ON VENTURE CAPITAL

"The venture capital ecosystem in Arkansas, while emerging, has seen exciting growth over the past few years. Investment in early stage infrastructure, notably in Northwest Arkansas, has begun to bear fruit. At RZC, we have seen the benefits of the buildout of support systems for early-stage businesses, such as accelerator programs and educational resources for founders. Accelerators from international organizations such as FIS and Plug and Play, alongside programming such as The Heartland Summit and Bentonville UP have brought world-class talent, businesses, and investors from across the globe that have decided to make Arkansas their new respective homes.

This influx of talent has been accelerated by the global pandemic and the increasing adoption of distributed workforces. We have seen first-hand a number of remarkably talented founders that have abandoned the coasts to come build their businesses in Arkansas. With a pool of cosmopolitan talent from the likes of Walmart, Tyson, and J.B. Hunt, founders are finding the right human capital to grow and scale their ventures. This upswell of talent is likewise attracting capital from outside the region. At RZC, some of our own portfolio companies have attracted capital from prominent venture capital firms across the United States. We expect to see continued opportunities to invest in businesses grown in our own backyard, and to help supply the capital and strategic direction to help those companies reach global scale."

Don Huffner
Vice President at RZC Investments

ON SBIR/STTR INVESTMENTS

"Arkansas struggles with seed stage funding and this is especially true for startups that have considerable technical risk. Fortunately, there is roughly $3B available annually explicitly for these companies through 'America's Seed Fund,' often known as the SBIR/STTR program. Unfortunately, we have struggled to access our fair share of these funds when measured against our peer regions. This is the largest gap in our current ecosystem when it comes to translating our world-class research efforts to viable business entities. Successfully addressing this issue enables our private capital to go towards tackling business growth challenges rather than retiring technical risk. Everyone wins.

"The recently launched Science Venture Studio is tackling this challenge head on and is focused on getting 'in the trenches' with our earliest stage technical founders. The effort complements, and works with, existing programs from the ASBTDC, Innovate Arkansas, and Startup Junkie. Looking ahead I believe we will see more entrepreneurs accessing the funds they need to build viable science-based companies in the region. This in turn will put more pressure on private capital to step in to help them grow and thrive instead of relocating. As a region I think it is healthy to have more viable investment opportunities than there are dollars to deploy, but I sure hope we can keep many of them here.

"I was told once that Arkansas will never build electric cars or send rockets to space due to limits on our vision and resources. It is important to note that several of our SBIR success stories have played a role in making these things possible (or better) with advancements in power electronics and advanced materials. I, for one, will never discount our technical founders and I hope you don't either."

Douglas Hutchings

CEO of Picasolar, Inc. and Director of the Arkansas Research Alliance Academy

SPOTLIGHT: WALTON FAMILY FOUNDATION

The entrepreneurial community in Arkansas has an unusual asset in the Walton Family Foundation. The foundation was founded by Sam and Helen Walton and today is led by three generations of their descendants. Headquartered in Bentonville, the Walton Family Foundation supports Northwest Arkansas and the Arkansas-Mississippi Delta (called "Home Region"), serving as a robust philanthropic resource in our region.

In Northwest Arkansas, the foundation is working with community partners to build an entrepreneurial ecosystem that will ensure all residents have access to the region's abundant economic and cultural opportunities and experience the region's growth and success firsthand.
The Walton Family Foundation also underwent a five-year strategic planning process in 2020. The resulting report lays out a vision for developing Northwest Arkansas as one of the most vibrant and inclusive communities in the nation, with a diverse and innovative regional economy. The Foundation is also strengthening its work across the wider Arkansas-Mississippi Delta region, deepening a collective understanding of how to best support community-driven change and development.

WALTON COLLEGE FINANCE DEPARTMENT INITIATIVE IN IMPACT INVESTING

"With the publication of this report, the Finance Department at the Walton College of Business at the University of Arkansas is excited to announce the development of an impact investment initiative. The Department envisions a student-centric, world-class, effective, and fun industry outreach center that will nurture and advance the field of impact investment in Arkansas.

The core of the initiative is a Working Group of self-identified impact investors in the state who collaborate with students on alternative financing structures to impact any of our core focus areas: place-based Arkansas investing, access to capital for diverse entrepreneurs, and thematic investments in environmental and social enterprises.

The initiative plans to develop and promote educational programming in impact that includes curriculum innovations, student-centered practicum projects and student-managed or student-engaged impact funds, research into investible impact solutions, workshops, panel discussions, and conferences."

Cash Acrey

Managing Director of the Master of Science in Finance program at the University of Arkansas - Walton College

2020 CAPITAL SCAN | DATA SOURCES

The conclusions that this study presents are based on a broad cross section of primary and secondary data from government offices, interviews with investors, and surveys from entrepreneurs. The goal for this study was to capture as much of the deal flow in Arkansas as we could within the constraints of the available data. Specific data limitations are discussed within the relevant sections of this report to contextualize the analysis, and the full list of data sources has been included below.

Arkansas Economy Section
Arkansas Demographics
2020 Quickfacts - U.S. Census Bureau
https://www.census.gov/quickfacts/AR

Arkansas Economics Regions - Association of Arkansas Development Organizations
https://arkansaseconomicregions.org/

Gross Domestic Product
Real Total Gross GDP - St. Louis Federal Reserve (FRED)
https://fred.stlouisfed.org/series/ARRGSP/?utm_source=fred-glance-widget&utm_medium=widget&utm_campaign=fred-glance-widget

Arkansas Unemployment
Unemployment Rates - St. Louis Federal Reserve (FRED)
https://fred.stlouisfed.org/series/ARUR/?utm_source=fred-glance-widget&utm_medium=widget&utm_campaign=fred-glance-widget

Business Applications
Business Applications for Arkansas (Seasonally adjusted) - St. Louis Federal Reserve (FRED)
https://fred.stlouisfed.org/series/BUSAPPSAAR#

Business Applications from Corporations for Arkansas - St. Louis Federal Reserve (FRED)
https://fred.stlouisfed.org/series/CBUSAPPSAAR

Patents
Useful Stats: New utility and plant patents by state, 2016-2020 - SSTI.org
https://ssti.org/blog/useful-stats-new-utility-and-plant-patents-state-2016-2020

Minority-owned Business
2018 Small business profile: Arkansas - U.S. Small Business Administration
https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-AR.pdf
Minority-owned business revenue disparity - MBDA (Minority Business Development Agency)
https://www.mbda.gov/sites/default/files/migrated/files-attachments/Arkansas_Profile.pdf

Angel and Seed Fund Section
Angel and Seed Investment Deals for 2020 - PitchBook
https://pitchbook.com/
Includes information on types of deals, date, industry, headquarters location, and main investors.

Self-reported Angel and Seed Investment Deals (Survey)
Start-Up Business Survey - the 2020 Arkansas Capital Scan team collected data in early 2020 from entrepreneurs on their 2020 deals, needs, and challenges. This data was categorized into angel/ seed or venture capital and reported on in aggregate. Where there was disagreement between deals reported by PitchBook and by entrepreneurs, we prioritized the primary data self-reported by entrepreneurs.

The following data was collected:

Company Name
Year Founded
City and Zip code of Headquarters
Primary Industry
Company Stage
Number of Founders
Founders gender
Founders race and ethnicity
Founders age
Founders education level
Founders veteran status
Whether or not the company was actively seeking funding in 2020
What types of funding the company received in 2020
Attitudes towards access to capital in 2020
What resources in Arkansas were most useful in seeking capital
Gaps in accessing capital

Entrepreneur Demographics
As demographic characteristics of companies are not collected and reported in a consistent manner, we collected this data from a variety of sources with the following prioritization:
Self-reported founder demographics, either through survey or listed on their company's website or in press releases.
Reported demographics from secondary sources, including PitchBook, government databases (for example, Women-Owned Small Business designations), and associations.
Assessment of majority demographics of self-reported founders.

Comparator State Populations
2020 Quickfacts - U.S. Census Bureau
https://www.census.gov/quickfacts/

Venture Capital Section
Venture Capital Investment Deals for 2020 - PitchBook
https://pitchbook.com/
Includes information on types of deals, date, industry, headquarters location, and main investors.

Self-reported Venture Capital Investment Deals (Survey)
Start-Up Business Survey - the 2020 Arkansas Capital Scan team collected data in early 2020 from entrepreneurs on their 2020 deals, needs, and challenges. This data was categorized into angel/ seed or venture capital and reported on in aggregate. Where there was disagreement between deals reported by PitchBook and by entrepreneurs, we prioritized the primary data self-reported by entrepreneurs.

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Assessment of majority demographics of self-reported founders.

Comparator State Populations

2020 Quickfacts - U.S. Census Bureau
https://www.census.gov/quickfacts/

Non-Dilutive Grants Section

SBIR and STTR awards
All SBIR and STTR award information was gathered from the SBIR website (https://www.sbir.gov/sbirsearch/award/all). All awards between 2001 and 2020 were pulled from this database for Arkansas, Missouri, Oklahoma, and Tennessee. This date range was selected in order to provide consistent comparison across all four states because the earliest listed awards in the database for Arkansas start in 2001. This data set included:

Company name
Company headquarters
Agency and Branch of award
Phase of award
Type of award (SBIR or STTR)
Award dates
Award amount

HubZONE designation (self-reported by company)
Woman-Owned Business designation (self-reported by company)
Socially or Economically Disadvantaged Business designation (self-reported by company)
Number of employees

Debt Section
Commercial bank consolidation and access to funding
Bank's Arkansas market share - FDIC
https://www7.fdic.gov/sod/sodMarketBank.asp

Credit Union Small Business Lending in Arkansas
Credit unions doubling their small business lending between 2008-2016 - SBA
https://advocacy.sba.gov/2018/01/01/how-did-bank-lending-to-small-business-in-the-united-states-fare-after-the-financial-crisis/

Data request for credit union financial performance
National Credit Union Administration
https://fpr.ncua.gov/FPRRequestSet.aspx

Paycheck Protection Program
All PPP loan level data was gathered from the SBA database (https://data.sba.gov/dataset/ppp-foia). All loans for Arkansas, Missouri, Oklahoma, and Tennessee were pulled from this database. This data set included:

Company name
Company location
Congressional District
Reported jobs
Race (self-reported by company)
Ethnicity (self-reported by company)
Gender (self-reported by company)
Veteran status (self-reported by company)
Loan originator
Loan amount
Forgiveness amount
Date of forgiveness

Comparator State Populations
2020 Quickfacts - U.S. Census Bureau
https://www.census.gov/quickfacts/

Small Business Administration Loans
Loan-level data provided by the Arkansas Office of the Small Business Administration

Crowdfunding
Product and Debt Crowdfunding

Kiva
Startup Junkie oversees the Kiva initiative for Northwest Arkansas:
https://www.startupjunkie.org/news/kivalaunch

Startup Junkie provided data on the crowdfunding campaigns completed under their platform, including company headquarters, total campaign, and number of participants in the campaign.

Kickstarter
Data on fully funded Kickstarter campaigns in 2020 in Arkansas were retrieved from the Kickstarter website.
https://www.kickstarter.com/

Equity Crowdfunding
SEC CF Crowdfunding changes
https://www.sec.gov/smallbusiness/exemptofferings/regcrowdfunding
https://www.sec.gov/info/smallbus/secg/rccomplianceguide-051316.htm

COVID Response Section
Economic Injury Disaster Loan Advance
All EIDL advance data was gathered from the SBA database (https://data.sba.gov/dataset/covid-19-eidl-advance). All loans for Arkansas, Missouri, Oklahoma, and Tennessee were pulled from this database. This data set included:

- Company name
- Company location
- Congressional District
- Advance amount

Southern Opportunity and Resilience Fund (SOAR)
https://www.connect2capital.com/p/soar-fund/

SBIR and STTR awards
All SBIR and STTR award information was gathered from the SBIR website (https://www.sbir.gov/sbirsearch/award/all). Awards for 2020 were database for Arkansas, Missouri, Oklahoma, and Tennessee. The abstracts of the awards were assessed for COVID-19 specific innovations and awards.

Arkansas Business Interruption Grant
Grant distribution
https://arkansasready.com/site/assets/files/1887/big_final_awardee_list_2-2-21.pdf

Shuttered Venues Operators Grant
Grant details - SBA
https://www.sba.gov/funding-programs/loans/covid-19-relief-options/shuttered-venue-operators-grant

Entrepreneurial Support Organizations Section
Arkansas Small Business and Technology Development Center
The ASBTDC provided their programmatic details and 2020 outcomes to the Arkansas Capital Team.

THANK YOU FOR READING THE 2020 ARKANSAS CAPITAL SCAN.

This marked the first year of the Arkansas Capital Scan. We endeavored to develop a landscape scan of the capital resources available to businesses in Arkansas in an effort to understand deal flow, and identify gaps and opportunities for new programs and policies to attract investment to Arkansas businesses.

This report was only possible thanks to the advice and inputs of entrepreneurs, investors, and stakeholders like you. As we plan for the 2021 Arkansas Capital Scan, we welcome any questions, comments, or feedback on our findings for 2020. If you are an entrepreneur and interested in reporting capital raised, we invite you to email us to receive notification of the release of the 2021 survey.

EMAIL: oei@uark.edu
WEBSITE: https://entrepreneurship.uark.edu/capital-scan.php