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Destinu Guahan
VENTURE CORPORATION

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DESTINU GUAHAN VENTURE CAPITAL FUND
INFORMATIONAL FACT SHEET
(Update as March 2023)

A Venture Capital Fund provides matching investment in proven, professionally managed private equity and venture capital projects located on Guam, that commit to aggressive and viable deal prospecting, and direct investment in Guam companies.

The U.S. Department of the Treasury will announce that Guam will receive up to \$58 million to administer three programs as part of the State Small Business Credit Initiative (SSBCI). The expanded program offering through SSBCI will enable the Guam Economic Development Authority through its *Destinu Guahan Venture Capital* subsidiary, to support small businesses across the island – helping them attract more capital investment and launch or expand business operations, while supporting key sectors. All of the new programs will launch in the coming months.

The following are general requirements to submit an application to the ***Destinu Guahan Venture Capital Fund (DGVC)*** for a matching investment.

ELIGIBLE FUND: Seed, Early, or Late Stage businesses.

MAXIMUM INVESTMENT AMOUNT: \$1,000,000.00 and below for seed and early business stage
\$1,000,000.00 and above for late business stage

INVESTMENT COMMITMENT: Prior to receiving an investment commitment from the DGVC, an applying business shall have received investment commitments of at least fifty point one percent (50.1%) of the company's total capital to be raised. In no event shall DGVC provide the initial investment commitment.

TERMS OF INVESTMENT: An investment from the DGVC shall be based on the terms and conditions as determined by the DGVC Board of Directors.

BUSINESS PURPOSE: Investment proceeds are to be strictly for a business purpose which includes, but is not limited to, start-up costs; working capital; franchise fees; and acquisition of equipment, inventory, or services used in the production, manufacturing, or delivery of a business's goods or services, or in the purchase, construction, renovation, or tenant improvements of an eligible place of business that is not for passive real estate investment purposes. Venture capital funds may be used to purchase any tangible or intangible assets except goodwill. The term "business purpose" excludes acquiring or holding passive investments in real estate, the purchase of securities, and lobbying activities.

PASSIVE REAL ESTATE INVESTMENT GUIDANCE (12 U.S.C. § 5704(e)(7)(A)(i)(I))

Each financial institution lender must obtain an assurance from the borrower affirming that the loan proceeds will be used for a business purpose. As noted above under "Business Purpose Generally," an eligible business purpose under SSBCI includes the purchase, construction, renovation, or tenant improvements of an eligible place of business that is not for passive real estate investment purposes. However, an eligible business purpose excludes acquiring or holding passive investments in real estate. Loan proceeds are used for passive real estate investment



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purposes when the proceeds of the loan are used to invest in real estate acquired and held primarily for sale, lease, or investment. Passive real estate investment includes most real estate development (including construction) in which the developer does not intend to occupy or actively use the resulting real property.

A small business borrower can deliver the assurance that the loan is not being used for passive real estate if the small business borrower occupies and uses at least a specific percentage of the building; the percentage varies depending on whether the project involves the construction of a new building or renovation of an existing building:

- **Construction of a new building.** If SSBCI-supported loan proceeds are used in the construction of a new building, the small business must occupy and use at least 60 percent of the total rentable property following issuance of an occupancy permit or other similar authorization.
- **Renovation of an existing building.** If SSBCI-supported loan proceeds are used in the acquisition, renovation, or reconstruction of an existing building, the borrower may permanently lease up to 49 percent of the rentable property to one or more tenants, if the small business occupies and uses at least 51 percent of the total rentable property within 12 months following the acquisition, renovation, or reconstruction.

If a small business chooses to lease an allowable portion of the rentable square footage to a tenant, the jurisdiction may rely on lease agreements, blueprints, or similar documentation in assuring the lease of an allowable portion of the rentable square footage is consistent with these guidelines.

SSBCI-supported loan proceeds may not be used to improve or renovate any portion of rentable property that the small business borrower leases to a third party. "Rentable property" means the total square footage of all buildings or facilities used for business operations, which (1) excludes vertical penetrations (e.g., stairways, elevators, and mechanical areas that are designed to transfer people or services vertically between floors) and all outside areas and (2) includes common areas (e.g., lobbies, passageways, vestibules, and bathrooms).

There are two exceptions to the general prohibition on the use of SSBCI-supported loan proceeds for passive real estate investment. An eligible business purpose may include the financing of real estate investments in either one of the following limited circumstances.

- (1) **Passive company leasing to operating company.** A passive company such as a holding company that acquires real property using an SSBCI-supported loan may have an eligible business purpose where 100 percent of the rentable property is leased to the passive company's affiliated operating companies that are actively involved in conducting business operations. To meet this exception, the following criteria must also be met:
 - The passive company must be an eligible small business using the affiliate and employee definitions described above;
 - The operating company must be subject to the same sublease restrictions as the owner affiliate;
 - The operating company must be a guarantor or co-borrower on the SSBCI-supported loan to the eligible passive company;
 - Both the passive company and the operating company must execute SSBCI borrower use-of-proceeds certifications and sex-offender certifications covering all principals;



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- Each natural person holding an ownership interest constituting at least 20 percent of either the passive company or the operating company must provide a personal guarantee for the SSBCI-supported loan; and
- The passive company and the operating company have a written lease with a term at least equal to the term of the SSBCI-supported loan (which may include options to renew exercisable solely by the operating company).

(2) **Construction loan of \$500,000 or less.** A construction loan with an original principal amount of \$500,000 or less may have an eligible business purpose if:

- the building will not serve as a residence for the owner, their relatives, or affiliates;
- the building will be put into service immediately;
- the loan is underwritten and made for the purpose of constructing or refurbishing a structure; and
- the building has not been and will not be financed by another SSBCI-supported loan.

Under this exception, loans that automatically convert into permanent financing are excluded from the definition of “eligible business purpose,” unless the converted loans would no longer rely on SSBCI support. The term “construction loan” means a loan secured by real estate made to finance (1) land development (*e.g.*, the process of improving land, such as laying sewers or water pipes) preparatory to erecting new structures or (2) the on-site construction of industrial, commercial, residential, or farm buildings. For purposes of this paragraph, “construction” includes not only construction of new structures, but also additions or alterations to existing structures and the demolition of existing structures to make way for new structures.

PROHIBITED LOAN PURPOSES:

- Repay delinquent federal or local taxes unless the borrower has a payment plan in place with the relevant taxing authority;
- Repay taxes held in trust or escrow;
- Reimburse funds owed to any owner, including any equity investment or investment of capital for the business’s continuance; or
- Purchase any portion of the ownership interest of any owner of the business, except for the purchase of an interest in an employee stock ownership plan qualifying under section 401 of Internal Revenue Code, worker cooperative, employee ownership trust, or related vehicle, provided that the transaction results in broad-based employee ownership for employees in the business and the employee stock ownership plan or other employee-owned entity holds

WHAT KINDS OF BUSINESSES ARE ELIGIBLE TO PARTICIPATE?

- Company must be located in Guam, or willing to relocate to Guam.
- Target an average business size of 500 employees or less and should not exceed a maximum business size of 750 employees.
- Corporations, partnerships, and sole proprietorships are eligible, including non-profits and cooperatives.
- Have a proprietary or protectable intellectual property;
- Be in the venture capital growth financing stage;
- Fit into at least one of DGVC’s focus areas – modernized agriculture and aquaculture, technology, healthcare / pharmaceutical, manufacturing startups and export opportunities to Guam companies;



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WHAT TYPES OF INVESTMENTS ARE ELIGIBLE?

Have, at the time of closing, an actual third party dollar-for-dollar matching investment for DGVC funds. The DGVC Program is a "co-investment fund". For each dollar that DGVC invest, the company must secure one dollar of investment from private sources to match DGVC's investment.

DGVC will match investment dollars paid to a company in exchange for the issuance of equity securities only.

WHAT QUALIFIES AS MATCHING FUNDS?

- DGVC will not consider grant funding as satisfaction of the match requirements.
- DGVC will not consider investments made in exchange for services provided or in-kind investments as eligible matching funds.
- DGVC will require applicants to provide information regarding proposed Co-Investor.
- DGVC will review such information on an individual basis to determine if such co-investment and involvement with the company qualifies as an eligible source of matching funds.
- DGVC expects Co-Investors to provide more than providing financial support; each Co-Investor is expected to be actively involved in the company's operations either directly or in an advisory capacity. The level of active involvement varies depending on the size of DGVC's investment, the stage of development of the company and the oversight and voting rights DGVC is entitled to as a result of its investment.
- The investment terms offered by accelerators and incubators have not qualified as matching funds since accelerators and incubators tend to receive more ownership in the company compared to their capital investment given the additional services and resources provided to the company.
- Investments pooled from an equity crowd funding platform, or an Angel List syndicate do not qualify as Co-Investors since such investors do not play an active role in managing and advising the company.
- DGVC's investment will be close simultaneously with all matching investors. However, in limited circumstances where an applicant can demonstrate significant burdens to such simultaneous closing, DGVC is willing to consider alternative matching fund closing scenarios.
- DGVC will invest under the same deal terms as negotiated by the co-investor(s), assuming an arms-length transaction reflecting market reality. Should the proposed terms be unreasonable, DGVC will invest under terms more in line with standard market rates.

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