

# MICRO-CAP REVIEW

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## **TIGRcub™ Security Structures Give Investors Access to Top-Line Revenues.**

**Meet Stephen H. Watkins, CEO of Entrex, Inc.  
The company behind the TIGRcub**

**Resizing, Downsizing  
and Re-visualization**

**Adjusting to New  
Investment Realities**



**Meet Stephen H. Watkins, CEO of Entrex, Inc.**

# **TIGRcub™ Security Structures Give Investors Access to Top-Line Revenues.**

**TIGRcub™ security structures, developed and licensed by Entrex Inc., offer investors and issuers a solution that derives investor returns from issuer top-line revenues while preserving equity dilution. In essence, this security grants the investor the right to a monthly percentage of the issuer's top line (GAAP) gross revenues in exchange for a lump sum of cash.**



**Let's face it, in today's economy companies have limited financing choices and large segments of investors are avoiding the stock market like the plague. In response, solution-minded investment bankers and brokers are enticing investors back in to deals with a security structure that derives returns from the issuing company's top line revenues—offering investors more stable current income, potential income growth, and liquidity.**

The security structure of choice for this kind of investing is called a TIGRcub™ or Top-line Income Generation Rights Certificate. Launched last summer by Chicago-based Entrex Inc., after several years of vetting by top legal, tax and accounting experts, the TIGRcub™ is staging for rapid adoption by institutional investors, fund managers and mid-market companies (with annual revenues in the range of \$5-\$250 million).

To date, more than 800 public and private companies have been identified by investment bankers, at both well known financial institutions and boutique firms, where TIGRcub™ structures will be considered for various financing events.

Companies find this type of non-dilutive security structure to be far more compelling than issuing new stock (especially with today's depressed equity values). And, an increasing number of investors are learning that this revenue-based security structure leapfrogs a series of concerns associated with investing in micro-cap public companies, including: illiquidity, inflation and risks associated with market factors unrelated to company performance.

### **HISTORY SUPPORTS REVENUE-BASED SECURITIES AS A GOOD ALTERNATIVE FOR INVESTORS.**

The concept of revenue based securities (i.e. royalties) has been around for centuries. It is not the concept of investing in revenues that is new about

the Entrex TIGRcub™ security. Entrex is “institutionalizing” revenue based securities with standard principle terms and conditions, a global servicing, corporate trust, and information platform to facilitate price discovery and ultimately secondary trading. Entrex is taken revenue based securities to a new level—one that allows investors to participate in market segments that were unavailable or unattractive before and satisfies their need for risk adjusted returns, current income, and liquidity.

During a recent interview with *Micro-Cap Review*, Stephen H. Watkins, founder of Entrex, explained that the TIGRcub™ security structure was created “as a solution for micro cap and middle-market companies and investors who find transactions in the equity and debt capital market space to be limited and inefficient.”

Specifically, the Entrex team developed the solution-oriented security structure after analysis of the equity

and mezzanine debt capital market revealed some key observations:

- **Factors unrelated to company financial performance adversely effect stock price.** Two major influences are investor sentiment and the complex algorithmic equity trading models routinely exercised. Both of these factors are completely outside a company's direct control.
- **Quantitative analysis of public company revenue performance and stock price show a distinct lack of correlation in upward and downward trends over time.** Multiple data sets revealed that stock price and revenue growth are independent variables.
- **The incidence of revenue volatility is substantially lower than stock price volatility.** This is seen at both company and portfolio levels, representing lower investor risk.

■ **Revenue analyses in both public and private companies show that revenues grow more steadily than public equities.** In fact, quarter-over-quarter indexed revenue growth of private company revenues outperformed Entrex's two public sample groups—even during recessionary periods.

The recent 30% market downturn helped to highlight this dichotomy of revenue growth trends and stock prices. However, even during strong equity market cycles, revenues continued to be less volatile and oriented toward growth, when compared to equity values.

Through study of the current DJIA companies, Entrex revealed that even this group of “Blue Chips” is not immune to the lack of correlation between revenue and equity values. The study of 10-year financial performance indicates that revenues of these companies, in aggregate, continue to be stable and increasing, even during this period of stock price decline.

The results of the DJIA study compare the revenue performance of the companies to the aggregate stock price performance over the course of the last decade. The graph sidebar featuring DJIA results shows how revenue increased by nearly 50% for the aggregate group. Yet this occurred while stock price, over the same period, experienced a 10% decline from its value at the starting point.

One might ask why the stock is currently worth so much less when the overall revenue performance is increasing at a

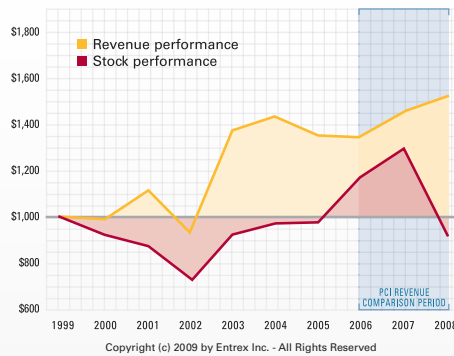
healthy pace. Clearly earnings play a role in equity value, but it is only one of many factors that impact equity value and investors cannot foresee this.

Further analysis of the public equity market (EMRI) graph at side bar) began with over 6,000 micro cap companies that reported less than \$250 million in annual revenue during the 10-year period—companies which became the Entrex Micro Cap Revenue Index (EMRI). This data also shows that stock prices continue to see periods of high

relative volatility, yet aggregate company revenue performance shows far lower volatility and stable overall growth.

When Entrex turned analyzed the private sector via the Private Company Index or PCI (PCI graph at side bar), the diverse collection of entrepreneurial North American companies actually outperforms both the EMRI and DJIA companies in terms of indexed revenue growth for the three year period 2006-2008. This data further illustrates that company revenues, in aggregate,

**Dow Jones Industrial Average (DJIA) Companies**  
\$1,000: Revenue Performance vs Stock Performance  
10-year Study



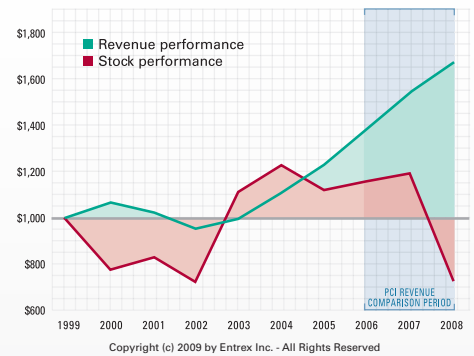
**The Dow Companies Stock vs. Revenue**

*Measuring the annual revenue performance of the current Dow companies against their stock performance, over a 10-year period.*

10 year revenue performance can be non-correlative to stock activity in periods of extreme volatility.

- Based on company revenues, the year-end 2008 value of \$1,000 is \$1,527.
- Based on company stock prices, the year-end 2008 value of \$1,000 is \$911.
- 2008 over 2007 shows a 5% increase in revenue performance simultaneous to a (predictable) 30% decline in stock value in that same time.

**Entrex Micro Cap Revenue Index (EMRI)**  
\$1,000: Revenue Performance vs Stock Performance  
Top 50 Compliant Micro Cap Public Companies  
10-year Study



**OTC Companies Stock vs. Revenue**

*Measuring the annual revenue performance of micro-cap companies (\$5-250M range) against their stock performance, over a 10-year period.*

10 year stock price has shown a great deal of speculative volatility compared to revenue performance.

- Based on company revenues, the year-end 2008 value of \$1,000 is \$1676.
- Based on company stock prices, the year-end value of \$1,000 is \$726.
- Revenues for this aggregate group have steadily risen since 2002, and reflect a 67% increase since 1999.
- Stock price shows a great deal more volatility in the 10 years with the 2008 value on \$1,000 marked at -27% from the 1999 baseline.

Portfolio is self-selecting from the original 6,000 to include only those firms consistently in compliance with SEC reporting standards at date of analysis.

are able to perform well in periods that are marked with stock volatility and declining equity valuations.

The primary discovery from this research is that the TIGRcub™ is a win-win for both investors and issuers. TIGRcubs™ offer companies an alternative security structure for raising capital that appeals to investors' need for current income while avoiding the ownership dilution and governance issues that often complicate equity transactions.

## MODERN CORPORATE FINANCE SOLUTIONS & INVESTMENT OPTIONS ARE A NATURAL EVOLUTION OF THE CAPITAL MARKETPLACE

“Just as markets for other critical resources are changing and adapting to economic conditions today, so, too, should capital markets,” said Watkins. “TIGRcubs™ are leading the change. The security allows investors to take advantage of the good revenue positions that many companies are in today, even though their stock prices might look bad.”

“Unique advantages to the structure appeal to companies who may feel like an equity raise or mezzanine debt financing with equity warrants was their only option. Through a TIGRcub™ transaction, current ownership and shareholder structure is retained. In addition, issuing the security is not detrimental to their balance sheet like traditional debt, as there are number of ways to account for the TIGRcub™ security, depending on how it is structured,” said Watkins. Thus, the TIGRcub™ could actually serve to deleverage the balance sheet, making the company a more appealing target for additional debt, equity, or TIGRcub™ capital at a later developmental stage.

Investors' upside is that they see immediate cash returns, distributed monthly, and are not dependent upon a liquidity event of the company in order to realize their investment return, which often creates conflicting objectives between investors and founders, management, other shareholders. In today's potentially inflationary environment, the TIGRcub™ securities also offer investors a way to hedge inflation because, for most companies, revenues climb during inflationary periods.

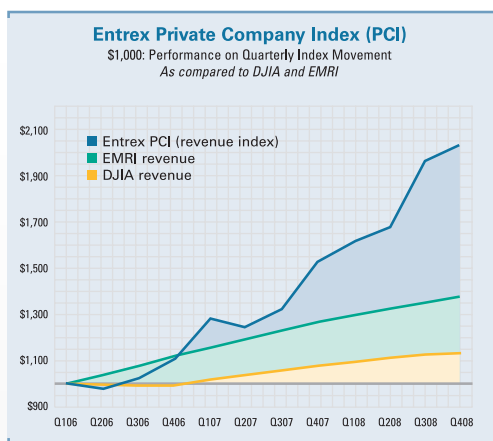
## TIGRCUBS™ ARE A SOLUTION FOR MICRO-CAP FINANCE

One of the biggest issues currently facing this group of companies is market capitalization is declining as a result of depressed stock values. Raising equity capital in today's declining stock value environment can be extremely dilutive, and transactions will be based on lower valuations than just 18 months ago.

“But these financing circumstances are not a true reflection of what's going on” said Watkins, “since in many cases, a company's revenue could be consistent and healthy, yet its equity value is perceived to be far less that it was only recently.”

Within the range of the TIGRcub™ security structures, varying models exist that can accommodate the capital structure of nearly any company and still meet investor return requirements:

- The **High Yield Variable Annuity** model of the TIGRcub™ structure offers investors a higher risk/high reward model where the IRR improves as the issuer's revenues grow.
- The **Fixed Annuity** model of the TIGRcub™ structure has more bond-like characteristics where, in exchange for a pre-determined IRR, an issuing company can actually decrease their cost of capital overtime by showing extraordinarily high revenue growth.
- The **Exchange Offer** model of the TIGRcub™ structure allows companies a way to buy back company equity from shareholders through a TIGRcub™ issuance or create a tender offer to buy back the outstanding shares of the company with the proceeds of a TIGRcub™ financing. To the extent



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### Private Companies vs. Public Companies

Measuring the quarterly index performance of the PCI against DJIA and EMRI revenue trends from 2006-2008.

Three year private company revenue performance out performs public company revenue growth.

- Based on the PCI movement, the value of \$1,000 at year-end 2008 nearly doubles to \$1,981 in that three-year span.
- Based on EMRI company revenue growth during that period the year-end 2008 value of \$1,000 is \$1,375.
- Based on DJIA company revenue growth during that period the year-end 2008 value of \$1,000 is \$1,134.

that a company wishes to privatize, Sarbanes-Oxley public reporting compliance costs and obligations could be eliminated and ownership regained.

Essentially, TIGRcubs™ offer a way for companies to raise capital without the complexity of determining equity valuations. An investor who invests in a TIGRcub™ is poised to enjoy the returns associated with revenue growth and avoid the volatility of stock prices,” said Watkins.

### **WHAT FUND MANAGERS SAY ABOUT TIGRCUBS™**

Several funds are organizing capital to invest in TIGRcub™ securities. One group is Arctaris Capital Partners based in Waltham, Mass. “The financial markets are at a juncture where the need for innovation of practical and transparent financial structures are crucial,” said Andrew D. Clapp, managing partner. “The time is now for the art of finance to render new solutions that satisfy both investors and companies.”

Arctaris adopted TIGRcubs™ as this necessary solution and presents the security as an opportunity to limited partners of their fund and to portfolio companies.

### **THE TIGRCUB™ STIMULUS PACKAGE**

Watkins concludes with thoughts that revenue-based investing is really the stimulus package that companies, the U.S. and global capital markets need.

“A movement away from the customary asset allocations of stocks, bonds, and cash is possible with the availability of revenue-based securities. A movement toward asset allocations with revenue-based securities offers a new dimension of investment opportunity and can have a substantial economic impact in the U.S. It can restore and even increase capital flows into some of the most important sectors of the U.S. economy.” said Watkins.

“In light of the adverse conditions of the credit markets and the challenges associated with raising capital in the current public equity market, TIGRcubs™ offer tremendous benefits to both investors and company issuers.

TIGRcubs™ are the security for the real economy that we’re in today. A solution that will evolve investing to the new level of reward for all parties involved.”

For more information, contact Entrex at 877-4-ENTREX or visit [entrex.net](http://entrex.net). Stephen Watkins is available at [swatkins@entrex.net](mailto:swatkins@entrex.net).



*Stephen H. Watkins is CEO and founder of Entrex. An entrepreneur, he founded and exited numerous companies, and is the author of Capital Can't Fund What it Can't Find. Entrex*

*is a capital market system that brings investors and issuers together through the TIGRcubs™ security structure, a revenue-based security that represents a solution to a wide variety of corporate finance opportunities that exist today.*