

STRONG ROOTS. SMART BUSINESS.

Fall Newsletter



**Forging valued partnership, connecting a vibrant city,
and restoring a historic structure: Model Mill**

Three Roots Capital values its partnerships with skilled developers and financial institutions who support its mission to promote sustainable, meaningful economic

This commitment to forging high-quality relationships led Three Roots to connect with Grant Summers, president of Summers-Taylor, Inc., who was seeking financing for the Model Mill project in downtown Johnson City.

Three Roots' Chief Financial Officer Chris Miller explained how Three Roots was drawn to the Model Mill project because of the Summers family's commitment to creating value in their community through undertaking such a large-scale, challenging, historic renovation. Due to higher-than-average construction expenses, in addition to other challenges and limitations, Three Roots' connections, expertise, and access to capital were the right fit for the project's needs.

Originally built in 1908, the Model Mill operated as a flour mill for nearly 100 years before the property was abandoned in 2003. Over the next few years, many developers and community groups attempted to develop the property without success. By 2014, the Tennessee Preservation Trust had listed the building on its top-10 endangered properties list after it had fallen into disrepair, serving as a barrier to connecting the thriving development efforts in downtown Johnson City and East Tennessee State University's (ETSU) campus. This problem was further exacerbated when an arsonist set fire to the property in early 2016.



Summers-Taylor, Inc. purchased the property in late 2016, with plans to restore the building and property and transform it into a commercial, mixed-use facility. The facility will provide space for the headquarters of Summers-Taylor, Inc., the Johnson City Chamber of Commerce, ETSU's program offices, and possibly additional

The project is located in a severely distressed census tract in Johnson City, with a poverty rate of 39.4 percent. It is expected to create or retain 164 permanent jobs in the area. The goal of the project aligns with the economic development strategy for the city, the local development district, and the Appalachian Regional Commission. In addition to providing direct financing for the project, Three Roots encouraged Summers-Taylor, Inc. to pursue New Markets Tax Credits (NMTCs) as a financing mechanism, introducing them to BrightBridge, an organization based in Chattanooga, Tennessee specializing in NMTC transactions.

“This project really makes a difference in the community for several reasons, including the high-quality jobs it’s going to create and locate in that area, the fact that we’re preserving a historic structure, and the way this project connects the university and downtown regions of Johnson City,” said Miller.

In addition to making multiple direct loans to the project over time, Three Roots worked with BrightBridge to secure additional capital for the project from several, well-respected financial institutions: First Horizon (previously known as First Tennessee), US Bank, Royal Bank of Canada, Citizens Bank, and People Incorporated Financial Services of Virginia. Total financing for the project amounts to \$19.5 million, and Three Roots provided \$10.6 million of that amount.

“Three Roots wants to work with the most capable, high-quality entrepreneurs, developers, companies, and financial institutions in our region,” said Miller. “The Model Mill project was another opportunity to do just that.”

Model Mill will be completed sometime in 2020.

See Our Success Stories



Three Roots Capital Spotlight: Grady Vanderhoofven; Founder, President, Chief Executive Officer, and Board Member

Grady Vanderhoofven might originally be from western Colorado, but his dedication to advancing East Tennessee and greater Appalachia spans decades.

Prior to beginning his 19-year career in finance, Vanderhoofven came to Oak Ridge National Laboratory (ORNL) as an engineer upon graduating from Yale University with Bachelor's and Master's degrees in Mechanical Engineering. After a few years, he moved into technology transfer and commercialization, where he managed a portion of ORNL's intellectual property portfolio.

During the late 1990s, Vanderhoofven was involved in the creation of 12 startup companies based on technology developed at ORNL, helping these new companies raise around \$50 million. Over time, he noticed that even though the technology was created at ORNL, the companies would be established outside of Tennessee or eventually leave East Tennessee and relocate to where their investors were located.

"For example, if the investors were based in California, the company would go to California, if the investors were based in Texas, the company would go to Texas, and so on," said Vanderhoofven. "We created 12 startup companies, but only one or two ended up

To address this dire need for access to capital in Eastern Tennessee and in the surrounding region, Vanderhoofven co-founded and invested multiple private investment funds, including Meritus Ventures, the first Rural Business Investment Company (RBIC) in the United States, and Southern Appalachian Fund (SAF), a New Markets Venture Capital Company (NMVCC). He thinks it was his early activity in community development venture capital and impact investing that got him invited to participate in a program on private equity and corporate governance at Harvard Business School 15 years ago.

“That experience was calibrating,” he said, “It helped shape my perception of what might be possible if one could successfully raise and deploy capital in a region of the country where most investors – unless they lived there – would never even look for an investment opportunity. It also reinforced my recognition of the scope and scale of the capital gap in this part of the country.”

In 2016, he founded Three Roots Capital to make debt and equity investments in companies in mostly low-income areas of Tennessee and the broader Appalachian region. The Three Roots team also provides technical and operational assistance, mentoring, coaching, networking, and other services to help companies understand how to use the capital they raise, know what types of capital they need, and more. To date, the company has raised more than \$88 million and has committed approximately \$41 million to companies and projects in Tennessee and Kentucky.

Vanderhoofven explained that while there are several essential and value-adding incubators, accelerators, and economic development organizations in the region, there aren't a lot of investors that operate like Three Roots. There also aren't many investors in the region with Vanderhoofven's breadth and depth of experience over the course of multiple decades. Vanderhoofven has directly raised more than \$140 million in the past 19 years, and the companies he has worked with and invested in have raised more than \$300

of Directors of numerous successful and visible companies in the region, including Tricycle in Chattanooga, which was acquired by Shaw Industries [NYSE:BRK.A] in 2017, and GRIDSMART Technologies in Knoxville, which was acquired by Cubic Corporation [NYSE:CUB] less than a year ago. Vanderhoofven became acquainted with the founders of both companies before the companies were even formed, and he invested in each company when they were innovative but struggling start-ups. Both evolved and matured to become highly profitable, fast-growing companies that were revolutionary in their industries.

“Being a successful investor is about a lot more than simply writing a check,” said Vanderhoofven. “It’s common, often necessary, to lead or support follow-on fundraising activities, to facilitate management transitions, to help attract new talent, and to help develop and execute exit strategy. A successful investor must be able to add value beyond invested capital.”

Three Roots Capital is yet another example of making a difference by being different.

“Three Roots is a certified Community Development Financial Institution (CDFI) with an average loan size of approximately \$2.7 million,” continued Vanderhoofven. “Our team has the track record, experience, and knowledge about how companies are started, grow, and evolve and about the various types and sources of capital. We also have a number of financing tools we can use to support companies and projects. Our collaborative nature allows us to partner with banks, investors, and economic development organizations to provide access to capital for entrepreneurs, companies, and projects that might not have access otherwise.”

Vanderhoofven has formed a habit of creating innovative financial products to address persistent need in the region. Earlier this year, Three Roots Capital and partners Meritus Capital and Innova Memphis launched the TennesSeed Fund, an evergreen, seed-stage,

Tennessee. Vanderhoofven helped establish this fund as an affiliate of Three Roots Capital to address another gap in access to capital.

“We think about access to capital in the context of a continuum, with young companies on one end and mature companies on the other,” said Vanderhoofven. “As companies start and grow, they require access to different types of capital. The TennesSeed Fund can be a source of capital for young companies, while Three Roots can provide capital for more mature companies and projects. We have supported some very important and impactful projects – big and small – over the course of the past three years. Some of the projects would not have happened without the participation of Three Roots as a creative financial partner.”

In terms of projects he’s looking forward to at the moment, Vanderhoofven spoke about various opportunities at the University of Tennessee Research Park at Cherokee Farm. Three Roots has the potential to work with multiple developers and bank partners on projects that could have a “multi-generational, positive impact on the university and community.”

Three Roots also continues to work projects to transform the former Brushy Mountain State Penitentiary in Petros, Tennessee, into a thriving tourist attraction. The prison employed hundreds of employees in the rural, low-income community before it closed in 2009. Three Roots provided financing for the distillery, giftshop, and restaurant, which brought quality jobs to Morgan County.

“The most rewarding part of my job is being able to observe the long-term, positive impacts — both economic and social — of the investments we make and the projects and companies we are involved in,” said Vanderhoofven. “While it’s fun to invest money, and it’s essential to make money, the best part is being able to do something that has an impact that could endure for many years to come, even beyond my lifetime.”

Meet Our Staff

Generating Returns and Creating Jobs



\$39.4M

Capital Deployed



1060

Jobs Created



245,571

Sq. Ft Developed

Three Roots has loaned more than \$39.4 million, which has financed the creation and retention of more than 1,060 jobs and the construction or renovation of more than 245,571 square feet of commercial, industrial, and retail space.

3rootscapital.org

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