Financing a start-up Company

Why Capital Is Needed

- Capital
  - wealth in the form of money or other assets owned by a person or organization or available for a purpose such as starting a company or investing.
- **Types of Capital**:
  - **Financial Capital**: Money that can be invested in a business, such as cash reserves or loans.
  - **Human Capital**: The knowledge, skills, and experience of people that contribute to a company's operations.
  - **Physical Capital**: Tangible assets like machinery, equipment, and buildings used in production
- Customers will not pay until service is provided
- Owner has to buy things to make product and also live

Why Capital Is Needed

- You provide websites
  - Mostly clients other companies
  - Delays in getting paid
  - Need enough cash to live
  - Additional expenses to make website/startup
- If business is to develop a package/product
  - More time needed to build
  - More money needed

Why Capital is Needed

- Cash needed for
  - Salaries
  - Rent, heating, lighting
  - Equipment, consumables
  - Costs of marketing and advertising
  - Miscellaneous expenses (stationary, travelling etc)
  - Interest on loan (if borrowed)

Business Plan

- Your plan for potential funders
  - Convince them that plan is well thought and realistic
- Plan should contain
  - a description of what the company will be doing, together with information to show that it is technically feasible and that the founders of the company have the necessary expertise;
  - a description of the market the company is aiming at, an estimate of its size, and an assessment of the competition. It might contain statements like the following:

Business Plan

The company's target market will be small firms providing repair and maintenance services to householders, within a radius of 15 miles of the centre of Llanafan. So far as can be estimated from the data provided by the Llanafan Chamber of Commerce, there are around 1,200 such firms in the area, only 16 of which have websites. There are two other companies offering website design and hosting services in the area but neither appears interested in this market.

Business Plan

- Plan should contain
  - a prediction of the financial performance of the company. This will include budgets, cash flow predictions, and projected balance sheets and profit and loss accounts.

Sources of finance - Grants

- Grants
  - intended to assist with capital investment, typically investment in premises and equipment;
  - subject to a number of conditions, in particular the raising of capital from other sources;
  - limited to a certain proportion of the capital investment that the company can prove it has made.
- Smaller and Larger Grants
- Different programs for grants
- Short term solution

Sources of finance - Loans

- Loans
  - Incase of liquidation, lender to recover the loan from the sale of company assets
  - Security – collateral;
  - Incase of not sufficient assets, lender can ask for personal guarantees
- Overdraft loans
  - A bank can withdraw overdraft facility – can cause of liquidation of company

Sources of finance - Loans

- Long-term loans
  - Fixed period
  - Fixed rate
  - Provided the borrower pays the interest on time, the lender cannot call in the loan. The borrower must repay the capital at the end of the period.
- Soft-loans
  - Interest rates lower
  - Only for start-ups

Sources of finance - Loans

- Corporate bonds
  - **Corporate bonds** are debt instruments created by companies for the purpose of raising capital. They are called fixed-income securities because they pay a specified amount of interest on a regular basis
- Soft loans – government's initiatives
- Founders lending themselves

Sources of Finance – Equity Capital

- Equity Capital
  - Money paid in exchange for share in company
- Business angels
- Venture Capitalists
- Shares issued, taken from the difference between **issued capital and authorized capital**
- Both aim to make money by expanding company and later selling shares at profit

Gearing or Leverage

- The relationship between **loan capital and equity capital** in a company is important.
- Shareholders at much greater risk than lenders
- Example
  - 100 pkr – share capital – two founders
  - 100,000 loan – interest 10%
  - 1st year profit 10,000 – consumed by interest
  - If profit doubles 20,000 – 10,000 for onwners

Gearing or Leverage

- measure of a company's financial risk
- High levels of Gearing undesirable
- From point of view of shareholders
  - Too much money committed to loan/interest payments
- From point of view of lenders
  - Shareholders may encourage to trade recklessly