2220 - Entrepreneurial Finance and Venture Capital

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Lecture #2

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- In 2021, it had 200 stores in the US and over \$1B in net sales; "may be worth about \$9.4B"
- Worked out well for investors and Gap; not so much for Scott Kerslake!

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- What happened?
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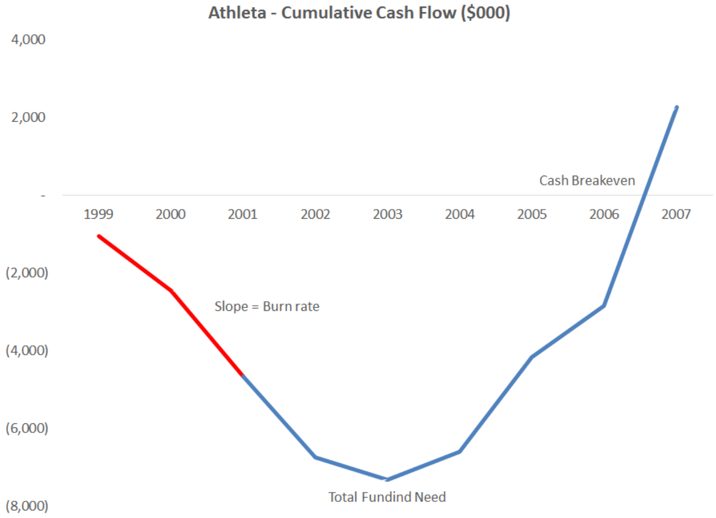
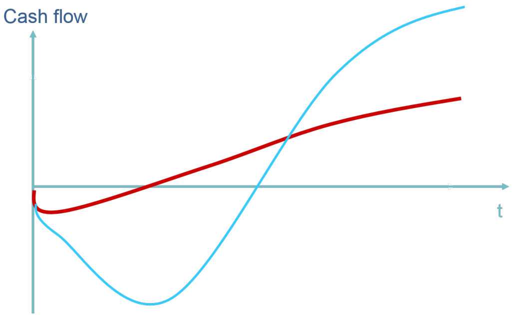
- Entrepreneurs some times neglect the impact of customer acquisition costs and asset intensity, underestimating funding needs

Should Kerslake have accepted the initial 10M deal?



Business models and cash flow curves



- Different business models and growth trajectories generate different cash flow patterns

Two key business model parameters

- Analyzed business model in terms of two key parameters
- Profitability
- Asset intensity = Net Operating Assets / Sales
- As we'll see next class, cash flow curves and funding needs are driven by the interaction of these two parameters with growth

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- Question: can asset intensity be negative?

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- Question: can asset intensity be negative?
  - Yes – and in that case the faster you grow, the less cash you need
  - Will see example next class

Next class

- Problem set 1
- Pre-reading: "A Simple Free Cash Flow Valuation Model"
- Please submit your answers on moodle