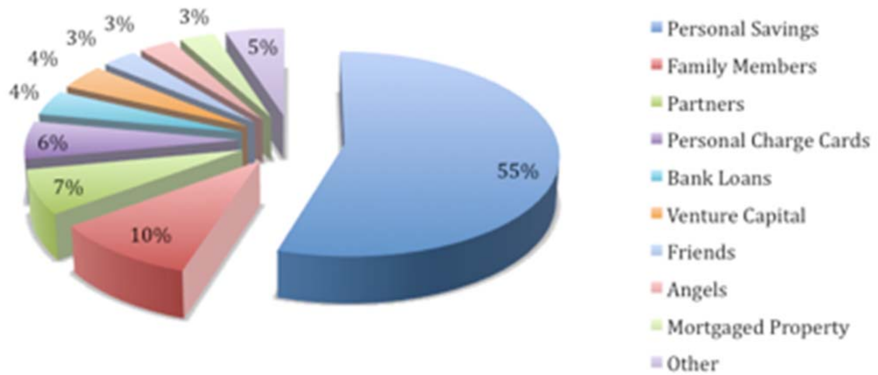
Sources of Financial Capital

Objectives

Where Startup Money Comes From



Source: pivotal-services.com

The right type of money your business needs depends on these questions

- How much money you need?
- What will the money will be used for?
- At what stage is your business in?
- What is your capacity to repay the money?

How much money do you need?

- Amount needed determines who is interested
- First $10,000-$25,000 is often founders, friends, and family money
  - For students, grants and competitions are also options
  - Crowdfunding is a rapidly emerging model as well
- While a bank may look at a deal of $100,000 or less, most venture capital firms would consider this to be too small as even a seed capital deal
  - Angels invest at the $50,000-$250,000 level (individually or as a group)

What will the money be used for?

- Banks (lenders) like deals with *hard assets*
  - Secures loan with collateral
- Investors are the usual option when the money will be used to pay for the day-to-day operating expenses of the business or in the case of more risky activities such as new development and launch

At what stage is your business?

- Earlier stage businesses including start-ups have to rely upon more *personal funds*, *competitions*, *and grants*
- Next are monies obtained through private investors (angels) then VCs, since they involve more risk than most banks want to assume
- Later stage businesses that are in the growth phase are more bankable depending on what the money will be used for

Bootstrap (Self-funding) Financing
Pros & Cons

Advantages

- Owned by founders
- Easy ownership terms
- Controlled by founders
- Lower pressure
- Little time spent on fundraising

Disadvantages

- May constrain growth due to limited capital
- Lack of funding commitment for future
- Loss of advice and social capital from professional investors

Debt Versus Equity

- Debt Financing
  - Secured financing of a new venture that involves a payback of the funds plus a fee (interest for the use of the money).
- Equity Financing
  - Involves the sale (exchange) of some of the ownership interest in the venture in return for an unsecured investment in the firm.

Debt Financing Pros and Cons

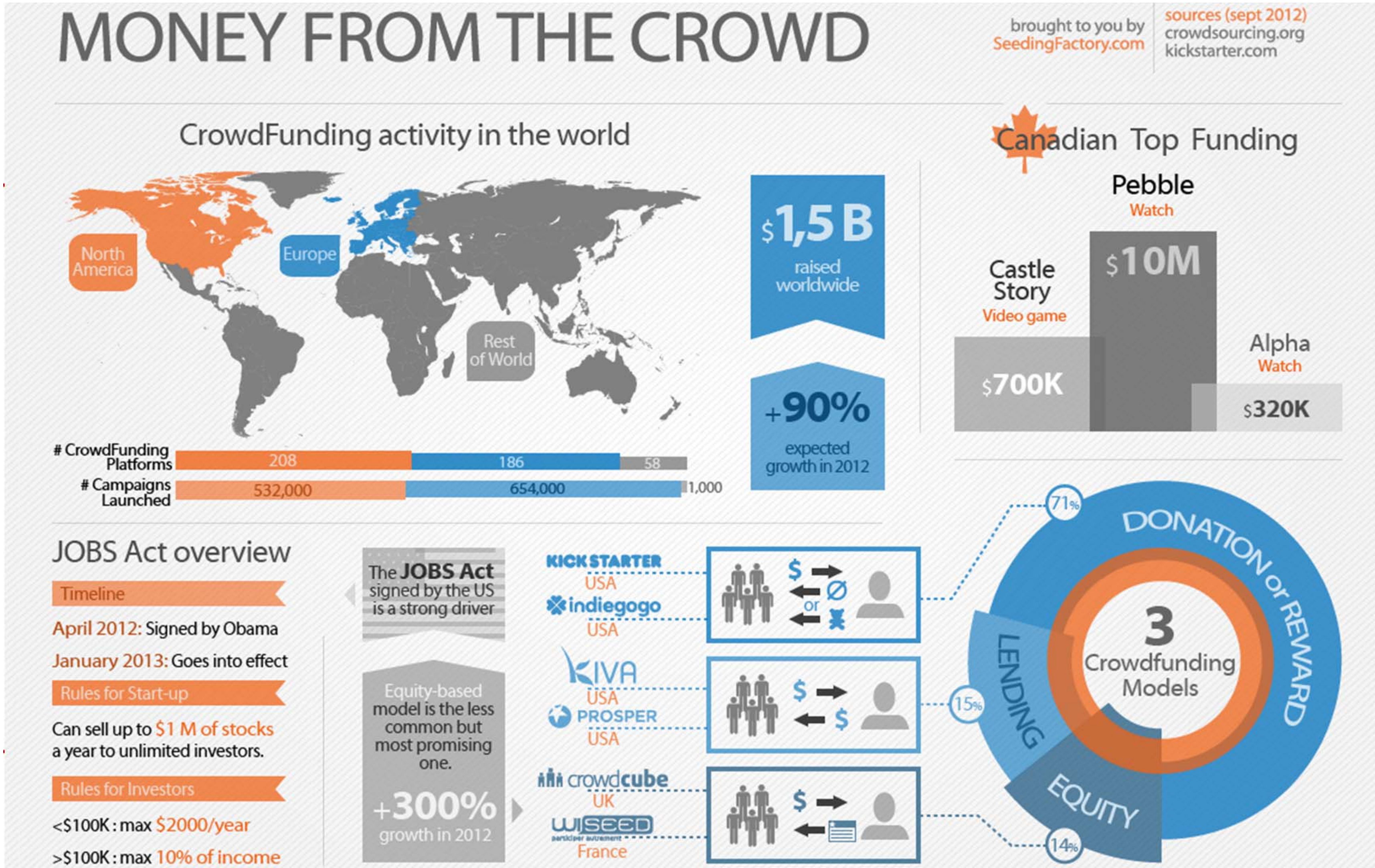
- Advantages
  - No share of ownership required
  - More borrowing allows for potentially greater return on equity
  - During periods of low interest rates, the opportunity cost is justified since the cost of borrowing is low
- Disadvantages
  - Regular (monthly) interest payments are required.
  - Continual cash-flow problems can be intensified because of payback responsibility.
  - Heavy use of debt can inhibit growth and development.

Equity Financing

- Money invested in the venture with no legal obligation (in the U.S.) for entrepreneurs to repay the principal amount or pay interest on it.
- Instead, ownership (equity) in the companies is sold to investors.

Venture Capital Evaluation Process

- Stage 1: Initial Screening
  - This is a quick review of the basic venture to see if it meets the venture capitalist's particular interests.
- Stage 2: Evaluation of the Business Plan
  - This is where a detailed reading of the plan is done in order to evaluate the factors mentioned earlier.
- Stage 3: Oral Presentation
  - The entrepreneur verbally presents the plan to the venture capitalist.
- Stage 4: Final Evaluation
  - After analyzing the plan and visiting with suppliers, customers, consultants, and others, the venture capitalist makes a final decision.



MONEY FROM THE CROWD
brought to you by SeedingFactory.com
sources (sept 2012)
crowdsourcing.org
kickstarter.com
CrowdFunding activity in the world
North America
Europe
Rest of World
$1,5 B raised worldwide
+90% expected growth in 2012
CrowdFunding Platforms
208
186
58
Campaigns Launched
532,000
654,000
1,000
Canadian Top Funding
Pebble
Watch
$10M
Castle Story
Video game
$700K
Alpha
Watch
$320K
JOBS Act overview
Timeline
April 2012: Signed by Obama
January 2013: Goes into effect
Rules for Start-up
Can sell up to $1 M of stocks a year to unlimited investors.
Rules for Investors
<$100K : max $2000/year
>$100K : max 10% of income
The JOBS Act signed by the US is a strong driver
Equity-based model is the less common but most promising one.
+300% growth in 2012
KICKSTARTER
USA
indiegogo
USA
KIVA
USA
PROSPER
USA
crowdcube
UK
WISEED
France
$
or
$
$
$
71%
15%
14%
DONATION or REWARD
LENDING
EQUITY
3 Crowdfunding Models

Summary

- The right type of money depends on the timing, purpose, and stage
- May use
  - Self-funding + Equity + Debt
- Crowdfunding may be a viable option