Exercise: Grow Your Tech Startup

You are the founder of "TechTrendz," a startup that develops a popular fitness tracking app. Your app has 10,000 users, and you've been running it from your garage with $20,000 of your own savings. Now, a big opportunity has come up: a major fitness brand wants to partner with you, but you need $100,000 to scale up—new servers, a marketing campaign, and two new developers. You have two options to raise the money:

1. Debt Financing Option:
- A bank offers you a $100,000 loan at 5% annual interest, repayable over 5 years.
- Monthly EMI payment: ~$1,890 (total repayment: $113,400 over 5 years).
- You keep full ownership of TechTrendz.

2. Equity Financing Option:
- An investor offers $100,000 in exchange for 20% ownership of TechTrendz.
- No repayment is required, but the investor gets 20% of all future profits and a say in big decisions.
- Your ownership drops from 100% to 80%.

3. Current Business Stats:
- Monthly revenue: $5,000
- Monthly expenses: $3,000
- Monthly profit: $2,000

4. Instructions:

<u>1. Step 1: Analyze the Options</u>

In your group, calculate the impact of each option:

- Debt: How does the $1,890 monthly loan payment affect your profit? Can you afford it? What happens if revenue drops?
- Equity: How does giving up 20% ownership affect your control and future profits? If TechTrendz grows to $10,000 monthly profit, how much goes to the investor?
- Discuss the pros and cons of each option.

<u>2. Step 2: Make a Decision</u>

- As a group, decide whether to choose debt financing, equity financing, or a mix of both (e.g., $50,000 loan + $50,000 from the investor for 10% equity).
- Write a short justification for your choice (e.g., "We chose debt because…").