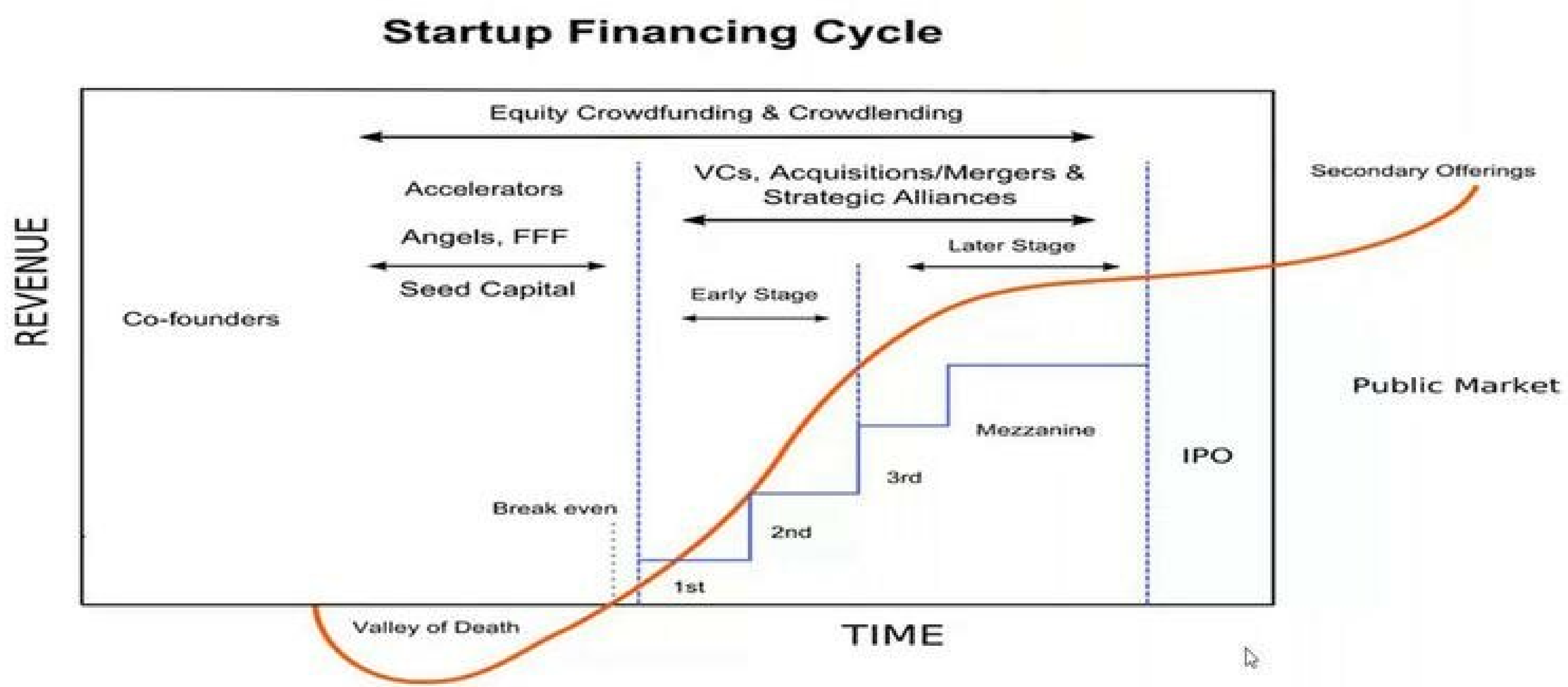
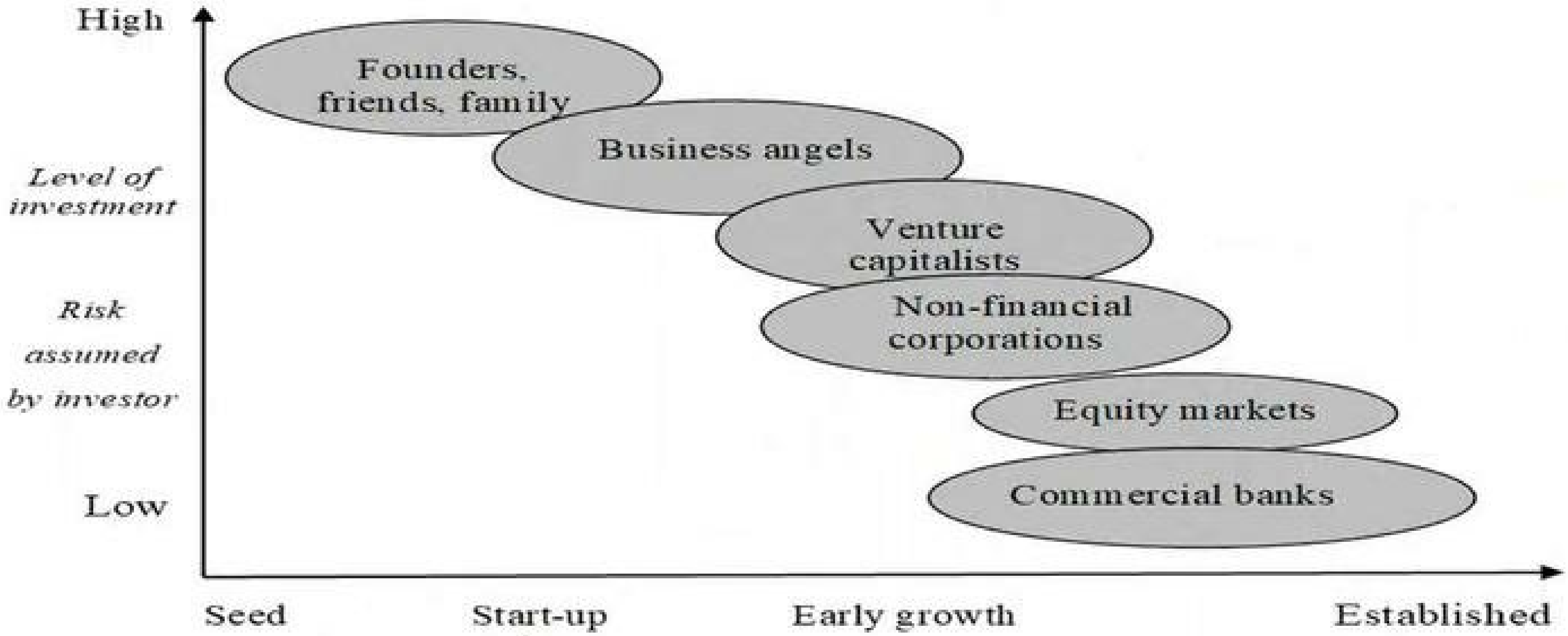
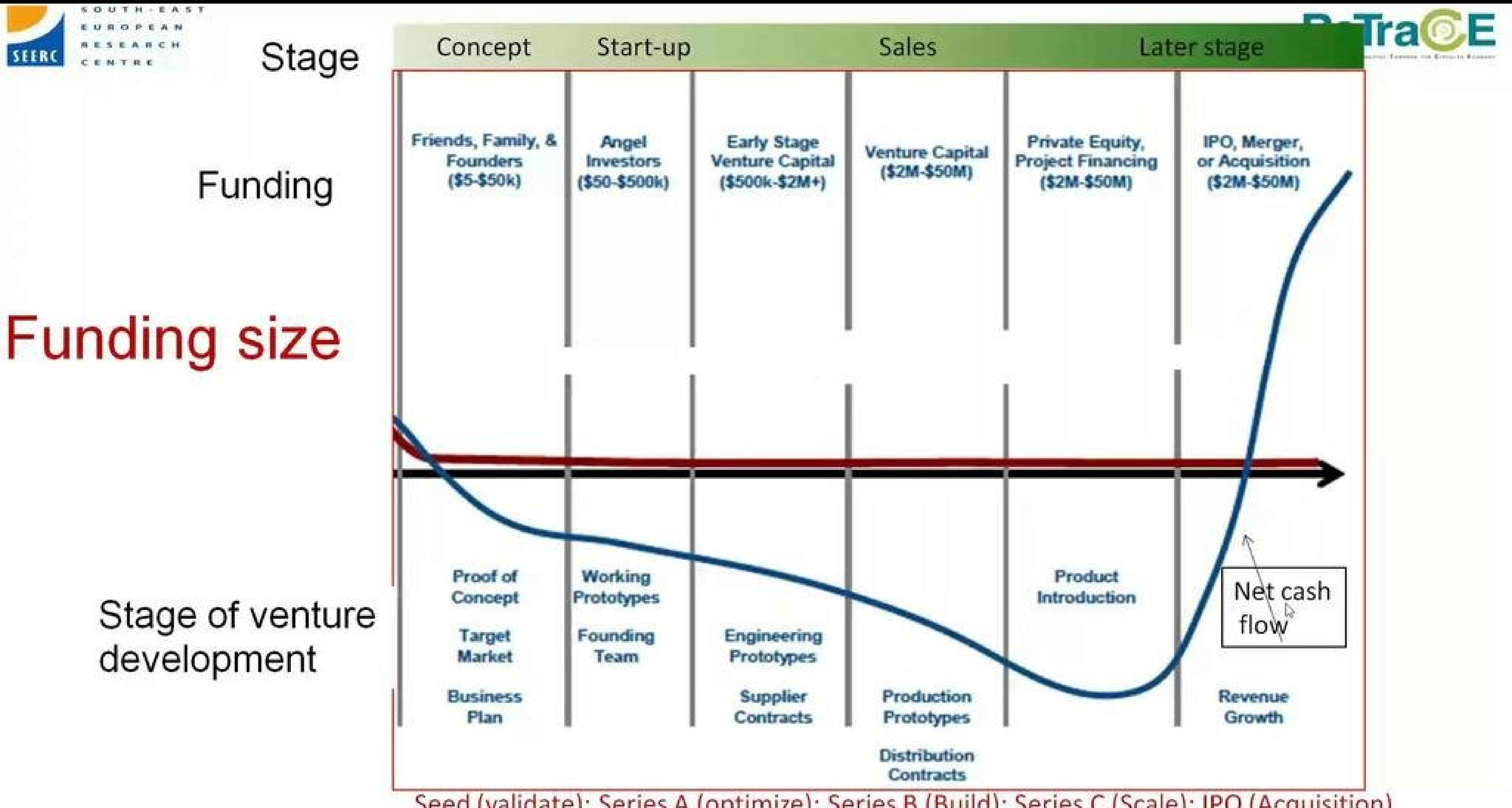
Startup financing cycle



Financing sources according to company's development phases




Stage
Concept
Start-up
Sales
Later stage
Funding
Friends, Family, & Founders ($5-$50k)
Angel Investors ($50-$500k)
Early Stage Venture Capital ($500k-$2M+)
Venture Capital ($2M-$50M)
Private Equity, Project Financing ($2M-$50M)
IPO, Merger, or Acquisition ($2M-$50M)
Funding size
Stage of venture development
Proof of Concept
Target Market
Business Plan
Working Prototypes
Founding Team
Engineering Prototypes
Supplier Contracts
Production Prototypes
Distribution Contracts
Product Introduction
Revenue Growth
Net cash flow
Seed (validate); Series A (optimize); Series B (Build); Series C (Scale); IPO (Acquisition)

How much Funding/money you will need ? And Why ?

- ✓ Licenses and Permit
- ✓ Supplies
- ✓ Equipment
- ✓ Operating Expenses
- ✓ Legal fees
- ✓ Employees and contractors

Sources of Funding

- Bootstrapping (self-financing, trade credit, factoring, letter of credit, leasing)
- Family, Friends & Fools (FFF)
- Credit cards (high interests)
- Bank loans/Lines of credit (collateral, guarantees, structured credit)
- Early customers (charge from day 1)
- Business Angels (syndicated?)
- Grants (government, contests)
- Incubators, Accelerators (cross-border?)
- Crowdfunding (Kickstarter)
- Equity crowdfunding (Crowdfunder)
- Venture Capital
- EU funding (Structural funds, SME instrument)
- Corporate funding (media equity)
- Mergers & Acquisitions
- Stock market (new market, IPO)

Question?

What is your key takeaway so far ?

Bootstraping

Before you seek capital form others

YOU

Need to truly explore everything you can do on your own –

This can actually help you get financing from other later on.

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Banks

- Debt financing in the form of loans.

- A bank loan works in much the same way as other business investments.

- Banks are reluctant to lend due to the limited track record of the company.

Personal Investors

- As Personal Investors are mainly considered: Friends, Family and Fools - "the *3F's*".
- Small amounts of money from people who are willing to invest in your company.
- They lack of entrepreneurial experience and knowledge.
- They want to see you succeed. They do not focus on the returns.

Government

- Resource programs that the government announces for new ventures and startups.
- It needs time for the approval, it needs time to take the money and you need the money now.
- Specific requirements (eg. Specific industries or sectors).

Crowdfunding / Peer-to-peer (P2P) lenders

- Digital ways of collecting funds through a platform.
- Mainly concern companies and projects that are in the very early phases of development.
- Common characteristic: raising finance online from a number of people, or investors, who pool together.

<u>Main difference:</u>

How you repay your investors?

- Crowdfunding give away equity or the final product, while P2P lending pay interest on the money borrowed.

Definitions

- Angel Investor –> **invest money + mentoring + networking**
- Financial Investor –> **Invests money**
- Intermediary –> May provide consultancy to investors. May manage or coordinate investments of financial investors (eg. Venture capitalists, brokers consultants …) usually charge management fees and success fees.

Business Angels / Angel Investors

- They are individuals who invest their own money.
- The act as individuals or as group investors (“Syndications”).
- Business Angels are a source of “smart” finance. Why?

Three main elements:

1. Know-how + Mentorship
2. Network
3. Funding

- They mostly invest in seed and startup phase and the make startups more investment-ready for other financial stakeholders.

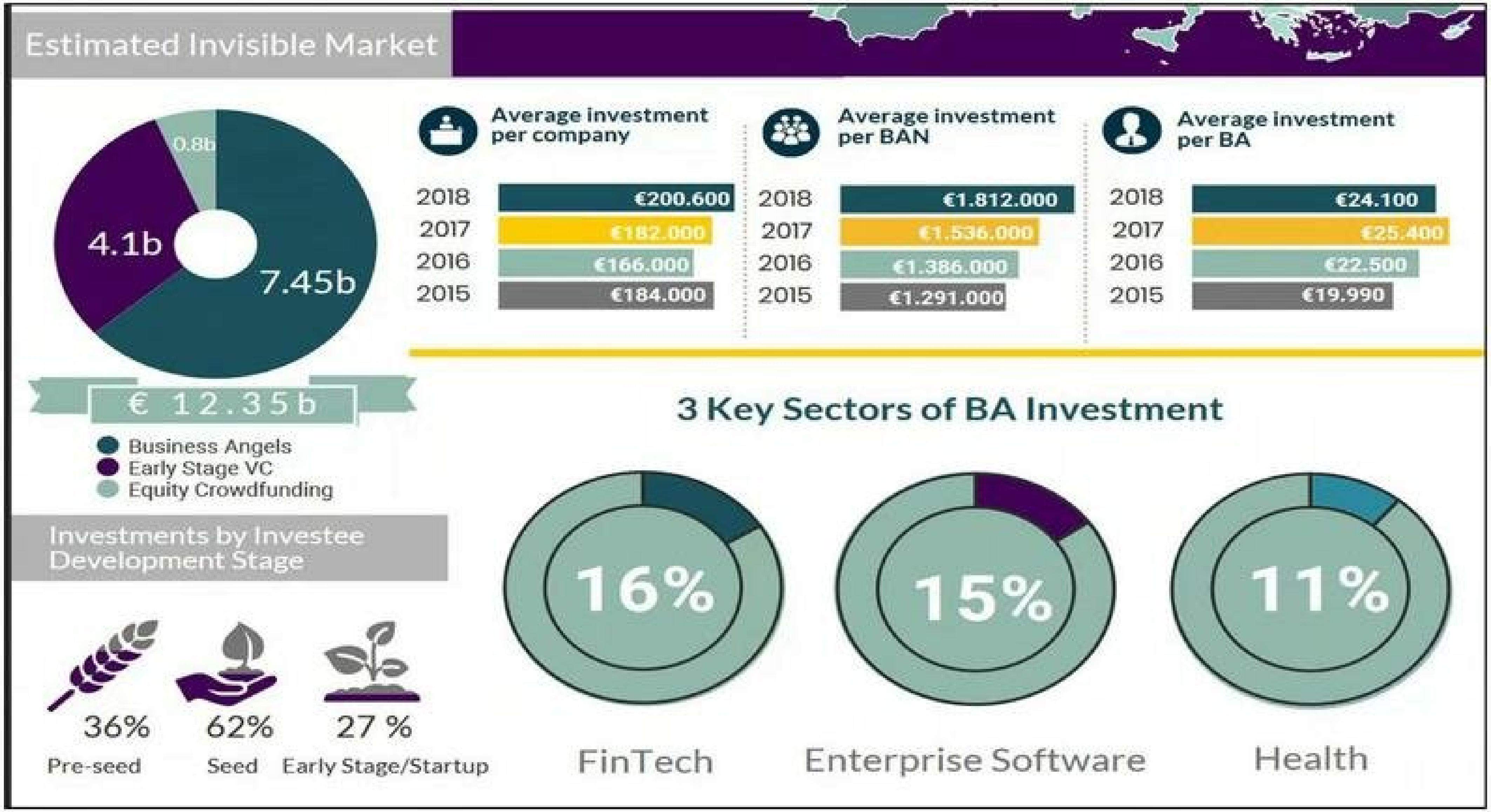
Factors motivating Business Angels

- Global Development – impact investment;
- Community development;
- Remaining an innovator in the field;
- Need for variation.

Early stage funding in Europe (1/3)

(Source: EBAN 2018)

Early stage funding in Europe (2/3)



(Source: EBAN 2018)

Types of Investment

The most common forms of outside investment in early stage business are preferred equity and convertible debt.

Preferred Equity is stock that carries with it certain rights superior to common equity in terms of how and when it gets paid back.

Convertible notes are short-term loans given by investors to startups that convert to equity when the next round of financing is secured.

Venture Capitalists

- Venture Capitalists manage pooled funds from investors who seek private equity stakes not from a single venture but from a whole portfolio with high returns potentials.
- They mostly finance new ventures in later phases.
- The money is to grow your business.
- They have active role in the in the company.

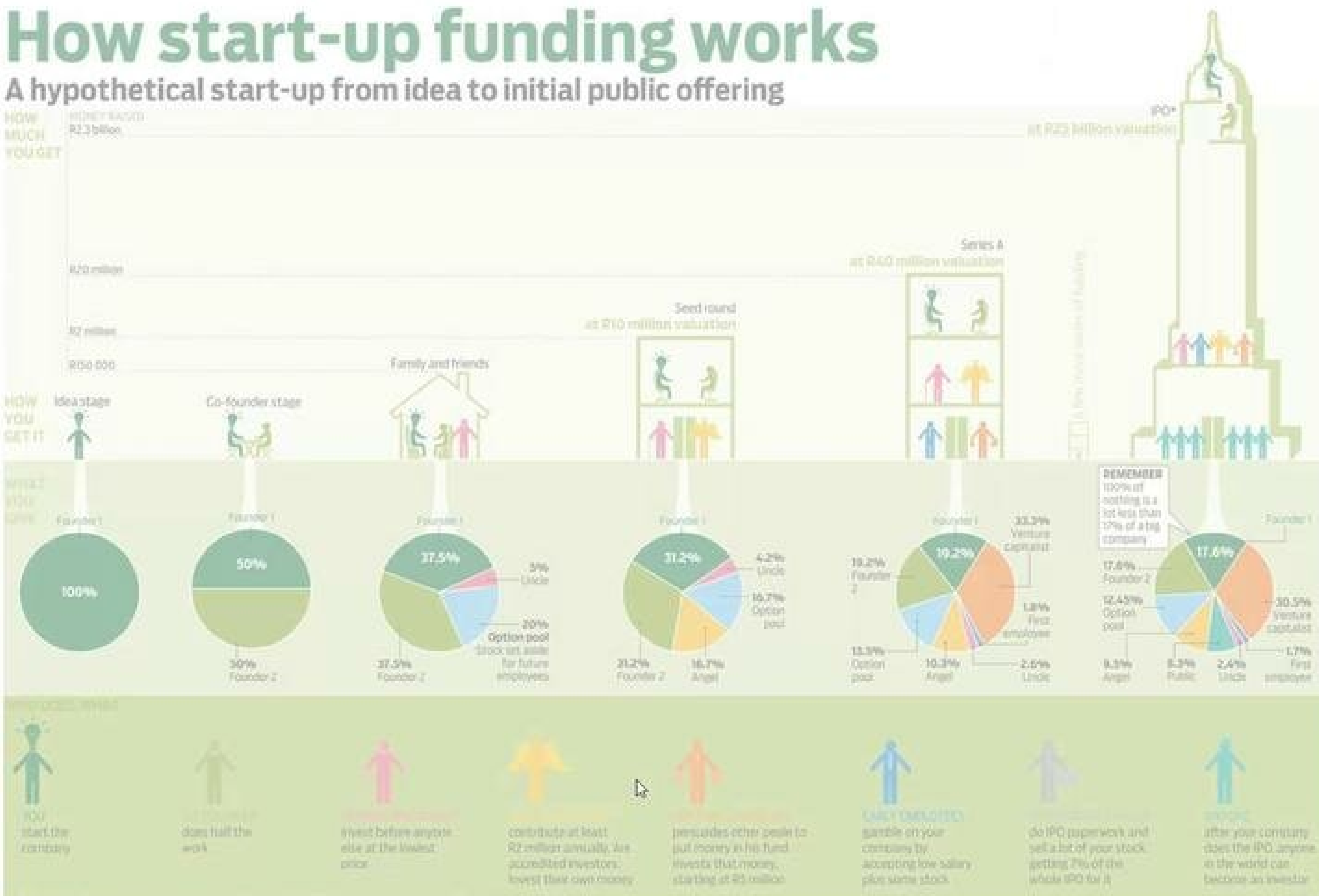
Corporate Ventures

- Corporate Ventures are, mainly, a division or a department of a corporation that wants to invest in venture capital.
- Take an equity stake in innovative firms to promote R&D.
- They provide management and marketing expertise to the new venture.
- Aim to increase the value of the corporation NOT to generate returns from the investment.

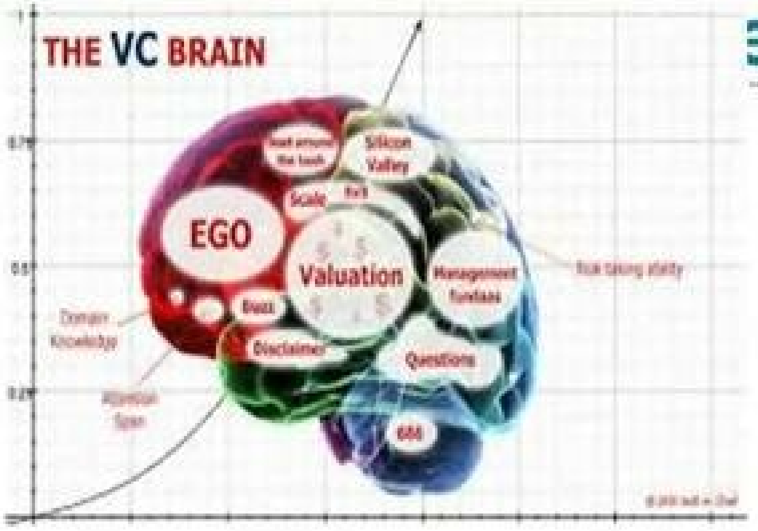
How to prepare - what to think

- Build-up a strong and complete team
- Create a solid business plan
- Be realistic in your projections
- Research your potential investor
- Think what type of investor fits on your need
- Think how much share are you willing to give away

Splitting the pie



Getting into the investor's mind



Investors are in the "EXIT" business

When to ask for funding – investment readiness ?

- Problem – solution fit
- Product – market fit
- Market definition and size
- Business model
- Validation
- MVP/Prototype
- Traction
- Scalability
- Financial projections
- Expertise: team - advisors
- Start early networking with investors (face-to-face, keep in touch)

How to approach Investors (1/2)?

- Let the others know what you are doing and what you search for
- Look through your connections
- Use your network to get introduced
- Do your research
- Get out and meet people
- Apply online - Send an email

How to approach Investors? (2/2)

<u>Suggestions</u>

Get in touch with the investors through:

- Their close environment (e.g. family, friends)
- Their colleagues
- Former or current entrepreneurs
- Service providers that they cooperate
- Other mutual connection

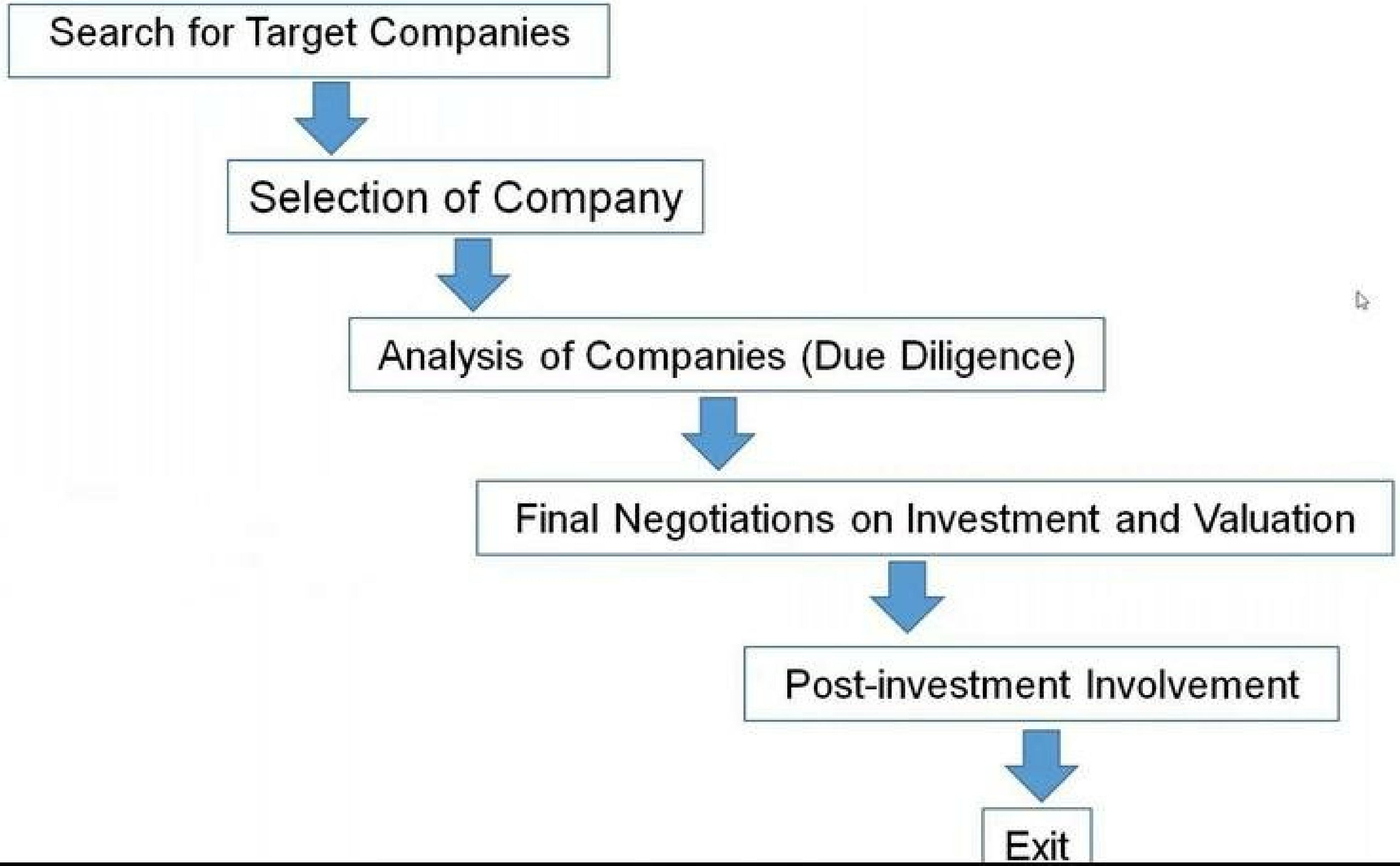
✓How investors tick

- Investors exist to make money/ maximize return
- Undergo very high risk
- Look out for the 'hot deal'
- Need a good track record to raise funds
- Go by recommendations
- Engagement needs to be worth the effort
- Go by people
- *'Marriage with a planned divorce'*
- Smart money – due diligence
- You need to make them see in you the great opportunity

Some important selection criteria

- Innovativeness of idea
- Sustainability
- PEOPLE
- Scalability
- Go-to-market strategy
- Financial projections

Business Angel Investment Process



ART vs SCIENCE discussion

SCIENCE

...is the easy part - researching valuations for comparable companies and constructing a revenue or EBITDA multiple...

ART

...is more subjective - How strong/probable/innovative is ...?

Those are the more nebulous aspects of "value."

- **How strong is the team ?**
- **How innovative is the idea / technology ?**

End of Session
THANK YOU!

Questions?