Perspectives on StartUp Capital
DIFFERING FRAMES OF REFERENCE

• Why would someone invest in you?

• What do they want out of their investment in you?

• Hard lessons in early stage investment:
  • Neat Receipts
  • Time Pilot
  • ShopAround.com

From an active investor: “I would also like to try to help a few companies if that would be useful or to help you in some other way. I had a couple of observations. First, none of the presentations presented a good picture of how investors could make money. This is required to get interest from serious smart money.”
The Reality of StartUp Funding

Charts from Angel Capital Association
The Reality of StartUp Funding

Angel Groups are Small - *but Important* - Subset of All American Angels

- U.S. Millionaires: 8.6M
- Informal Investors: > 1M
- Active Angels (Center for Venture Research): 265k
- Investors in Angel Groups: 15k

Charts from Angel Capital Association
The Ultimate Reality of StartUp Funding

1:72*

StartUps Succeed in Raising Capital

• From Bill Payne & Assoc. citing Tech Coast Angels 2011
On the Other Hand....

How much money did you use to start your business?

- Less than $10,000: 61%
- $10,000 - $49,999: 20%
- $50,000 - $100,000: 7%
- More than $100,000: 11%

Inc. September, 2013
On the Other Hand…
Inc 5000 Realities

What was your company’s biggest mistake or challenge in the first year?

- Shortage of capital: 45%
- Bad fit with other key employee: 16%
- Didn’t test product enough: 13%
- Spent too much time trying to raise money: 3%
- Bad fit with investor: 2%
- Spent too much: 11%
- Bad fit with partner: 10%

Inc. September, 2013
On the Other Hand...

Inc.

September, 2013
The Ultimate Reality:

85% of Inc. 5000 companies have not received external funding!
Start-Up Finance 101

Source of Early Stage Funding
Considerations Going In

• Your choices may be limited – if its via a commercial bank, it’ll be debt and require security

• Are you positioned to sell equity?
  • PPM
  • Shares
  • Accredited Investors

• Does your investor prefer debt?
  • First in line
  • Higher certainty

• Funding options for early stage ventures are often influenced by a company’s business model
Access to sources vary by a company’s maturity and risk profile.

- **HIGH RISK**
  - Founder, Family, Friends
  - Business Angels
  - Venture Capitalists
  - Corporate
  - Public Equity Markets

- **LOW RISK**
  - Commercial Banks

**START-UP** → **MATURITY**
Friends and Family

**Pros**
- Inexpensive source of funds
- Low due diligence
- Quick
- Usually founder can maintain control
- Can be a real motivator for founders

**Cons**
- High pressure to return investment
- Can cause personal financial disasters
## Angels

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cheaper than venture capital</td>
<td>• Unmanaged expectations can create issues</td>
</tr>
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<td>• Low to high due diligence</td>
<td>• May take many investors to fund the needs of the business</td>
</tr>
<tr>
<td>• Can be a quick source of funding</td>
<td>• Often carries the same Cons as FFF money</td>
</tr>
<tr>
<td>• Usually founder retains control</td>
<td>• Can create exit pressures</td>
</tr>
<tr>
<td>• Opportunity to receive more than money</td>
<td></td>
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</table>
Government

Pros
• Inexpensive source of funds
• Typically coupled with technical assistance

Cons
• Hard to find
• Modest investment amounts
• Unfamiliar to many investors
• Exposure to FOIA and state equivalent disclosure laws
Commercial Banks

**Pros**
- Inexpensive
- Portfolio of offerings
- Credibility
- Scalability

**Cons**
- Protective provisions may limit operating flexibility
- Priority claim on assets
- Reporting and disclosure requirements
- Typically bundled with other bank products
Venture Capital

**Pros**
- Credibility
- Can fund significant capital needs
- Growth friendly repayment terms
- Capital is accompanied with strategic and tactical assistance

**Cons**
- Expensive
- High due diligence
- Potential conflict of interests
- Most appropriate for big deals
- Capital is accompanied by strategic and tactical assistance
<table>
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Debt and Equity (Balance Sheet)  
Commercial Banks  
Grants Gov’t Funds
Debt and Equity (Balance Sheet)  
A

Commercial Banks  
B

Grants Gov’t Funds  
C

Self Funding

Friends & Family

Angel Investors

Venture Capital

IPO/Sell/Exit
Debt and Equity
(Balance Sheet)

Commercial Banks

Grants Gov’t Funds

A
B
C

Self Funding

“No”

Friends & Family

“Maybe”

Angel Investors

“Maybe”

Venture Capital

“Yes”

IPO/Sell/Exit

“Please”

**Working Capital Loans
**Fixed Asset Loans
**A/R Financing
*Acquisitions
*P.O. Financing

© 2005
Debt and Equity
(Balance Sheet)

Commercial Banks

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## Debt and Equity

(Balance Sheet)

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- Revenue, Time, Development

© 2005
Debt and Equity
(Balance Sheet)

Commercial
Banks

Grants
Gov’t Funds

Sources

1. Self Funding
   - “No”
   - “Maybe”

2. Friends & Family
   - “Maybe”
   - “Maybe”

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   - “Maybe”

4. Venture Capital
   - “Yes”
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**Working Capital Loans
**Fixed Asset Loans
**A/R Financing
*Acquisitions
*P.O. Financing

Revenue, Time, Development

--State
--Federal
--Private
Sources for More Info...

- www.angelcapitalassociation.org
- https://venturewell.org/
- www.eventuring.org
- http://nvca.org/

Update:
http://www.askthevc.com/resources
The Process

• Steps
  • Preparation
  • Subscription Agreement
  • Term Sheet
  • Check processing
  • Agreement filing
  • Confirmations
  • Cap Tables!!!

• Considerations
  • No soliciting
  • No advertising
  • Access to information
  • Equal footing
  • Complete and accurate
  • No after-market sales
  • Supplements
The Process

• Common Debt/Equity Vehicles
  • Loan Agreement
  • Convertible Promissory Note
  • SAFE Agreement
  • Equity Subscriptions
    • Founders
    • Seed
    • Series A
    • Series B
  • Preferred Rounds
  • Etc....

• Legal Considerations
  • Negotiations
  • Diligence
  • Drafting
  • Compliance
    • SEC
    • Non-Registered
  • Jurisdiction/Venue
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