Funding Fundamentals

for early-stage founders

Making capital access more efficient for entrepreneurs.

Noa Simons

- Section 1 -- Making Money
- Section 2 -- Sources of Capital

Background

- **2X Entrepreneur -** international education and environmental resource management
- **Tiandi Growth Capital** - China-based early stage climate tech venture capital firm
- **Hudson Valley Startup Fund** - Upstate NY member-managed angel investment fund and network
- **Upstate Capital Association of NY** - mission to increase access to capital for companies and deal flow for investors

"I've been things and seen places"

Mae West

- **Section 1 - Making Money**
- Section 2 - Sources of Capital

Saifedean Ammous

#284

Lex Fridman

What are capital providers buying?

Economic Value

Strategic Value

Social Value

What are the motivations?

Where Economic Value Comes From

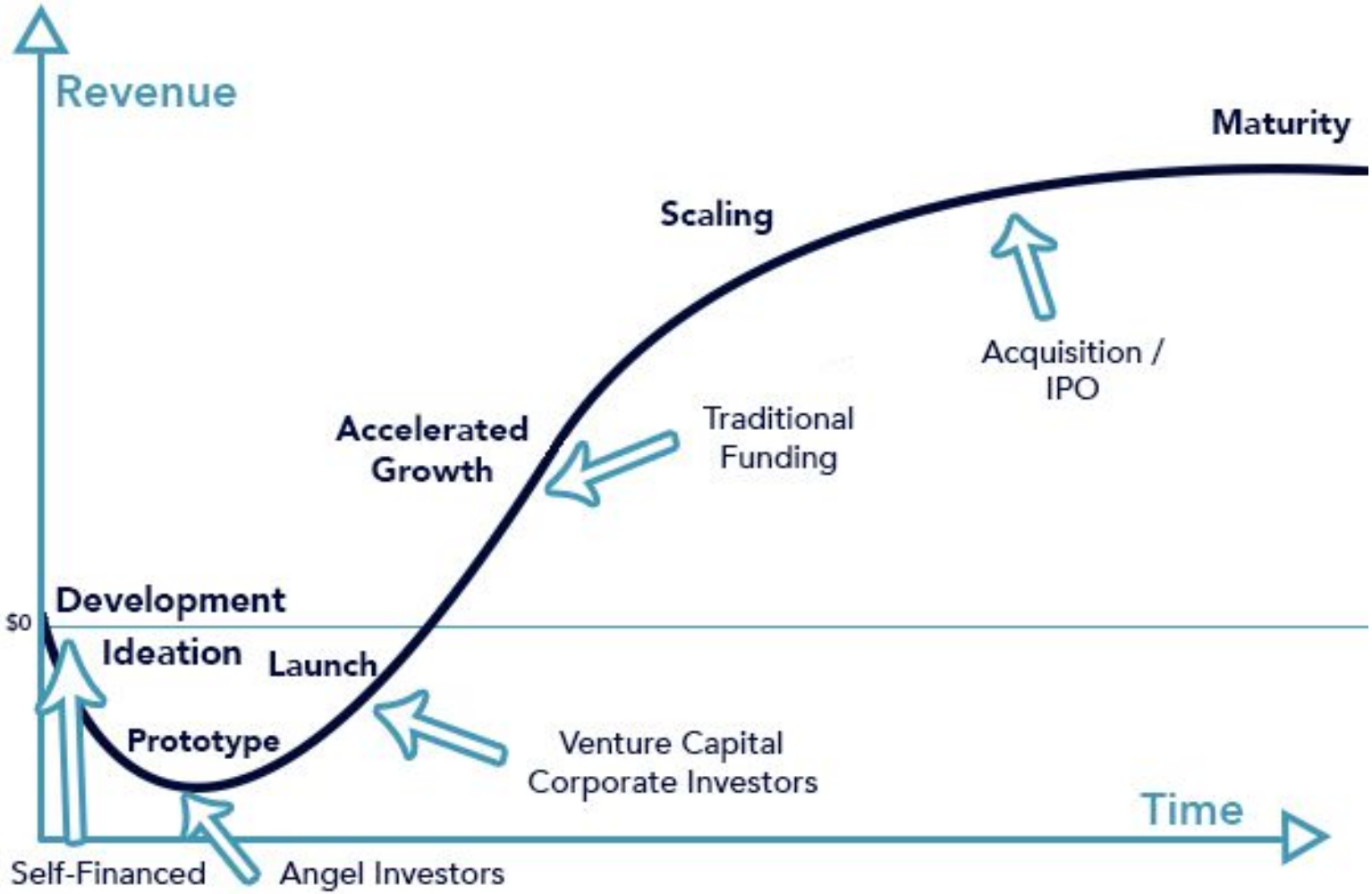
Profit.

Unit Economics

Unit Selling Price	$100
Cost of Goods Sold	$50
Gross Profit	**$50**

Business profitability

Unit Selling Price	$100
Cost of Goods Sold	$50
Gross Profit	$50
Operating Expenses	$25
Net Profit	**$25**



Source: http://accesstocapital.com/resources/startup-funding/

Does the business make money?

1. Likelihood of value creation
2. Value of the business
3. Cost to launch business
4. Speed of growth

Type of Capital	% of Companies
Bank and other loans	39.0%
Personal savings	33.4%
Friends and family	7.1%
Credit cards	6.9%
Angel investors	**6.5%**
Venture capitalists	**4.9%**
Government sources	2.2%
	100%

https://www.washingtonpost.com/news/on-small-business/wp/2015/03/16/no-entrepreneurs-most-of-you-dont-need-angel-investors-or-venture-capitalists/

Questions

- Section 1 - Making Money
- **Section 2 - Sources of Capital**

Customers.

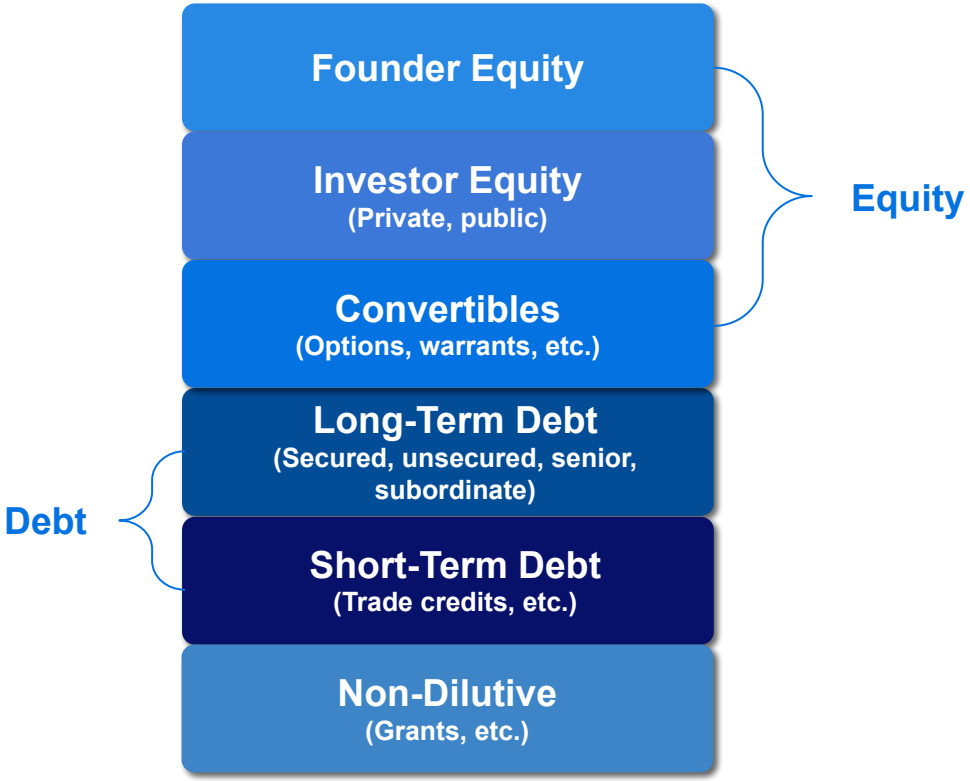
All capital providers are not created equal.

WEIGHING THE PROS AND CONS OF FUNDING SOURCES

	ADVANTAGES	DISADVANTAGES
DEBT	Bank debt allows the founder to maintain full control of the business.	Bank debt is mainly about cash—it doesn't provide any of the non-financial benefits of other types of financing.
EQUITY	VC-backed companies have faster employee growth, greater sales, and faster sales growth.	Misaligned incentives can cause firms to IPO earlier than optimal, or founders to be replaced.
CROWDFUNDING	Crowdfunding can help entrepreneurs get feedback and determine the validity of their idea.	Crowdfunding may lead entrepreneurs to disclose business details or intellectual property, thereby exposing them to competitors.
GRANTS	Grants can stimulate R&D and technology commercialization that would not have happened otherwise.	Most grants are very specific. For example, more than two-thirds of SBIR-funded companies had a founder who was previously an academic.

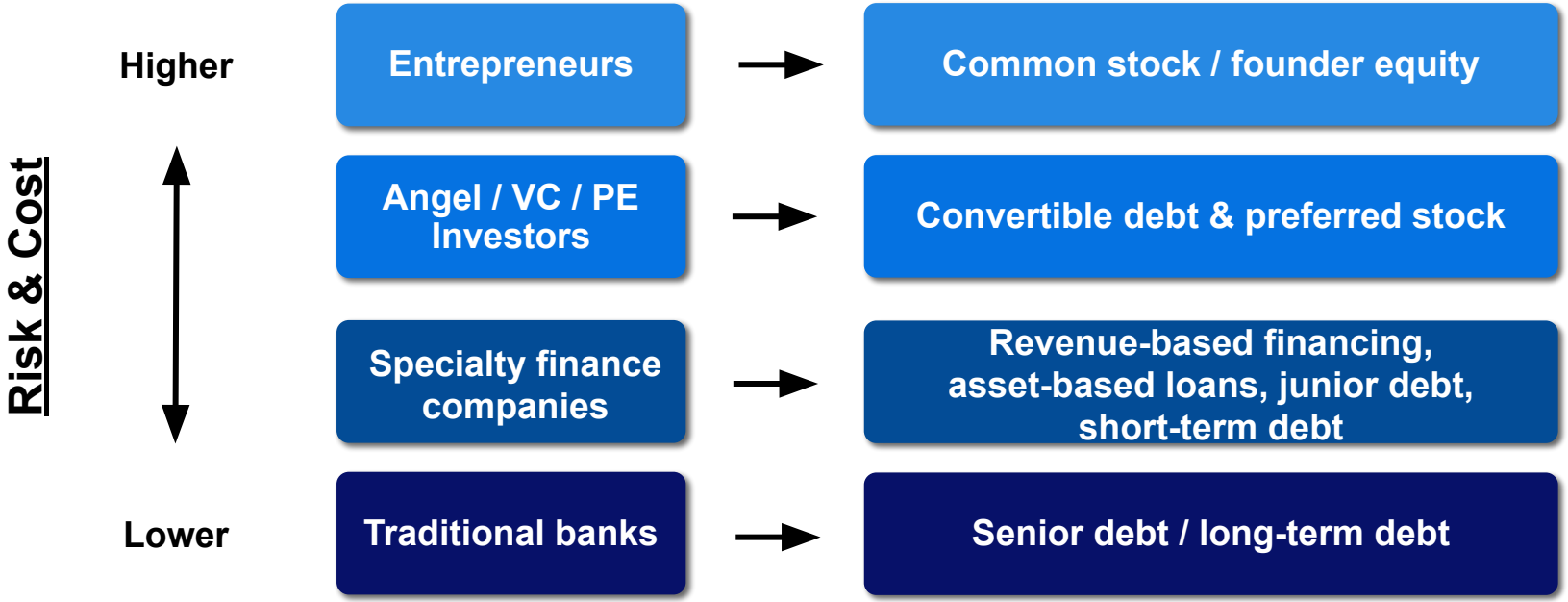
Source: Ewing Marion Kauffman Foundation

What is the Capital Stack?



Source: http://chadjardine.net/blog/finan-6300/

Risk, Cost & Ownership



Sources:Internal, https://www.slideshare.net/LighterCapital/how-to-get-funded-in-2017

Non-Dilutive Funding Sources

- **Grants**
  - **“America’s Seed Fund” @ SBIR.GOV**
  - **Opportunistic grants**
    - Corporations
    - Non-profits
- **Competitions**
- (Donation-based & rewards-based) **Crowdfunding**

Crowdfunding

- **Donations/Rewards** - IndieGoGo, Kickstarter
- **Equity** - SeedInvest, WeFunder, Republic
- **Debt** - Funding Circle, Prosper, Lending Club

The Banking Perspective

- Collateral
- Ratios
- Portfolio construction
- Regulations
- Role of the SBA

Types of Lenders & Loans

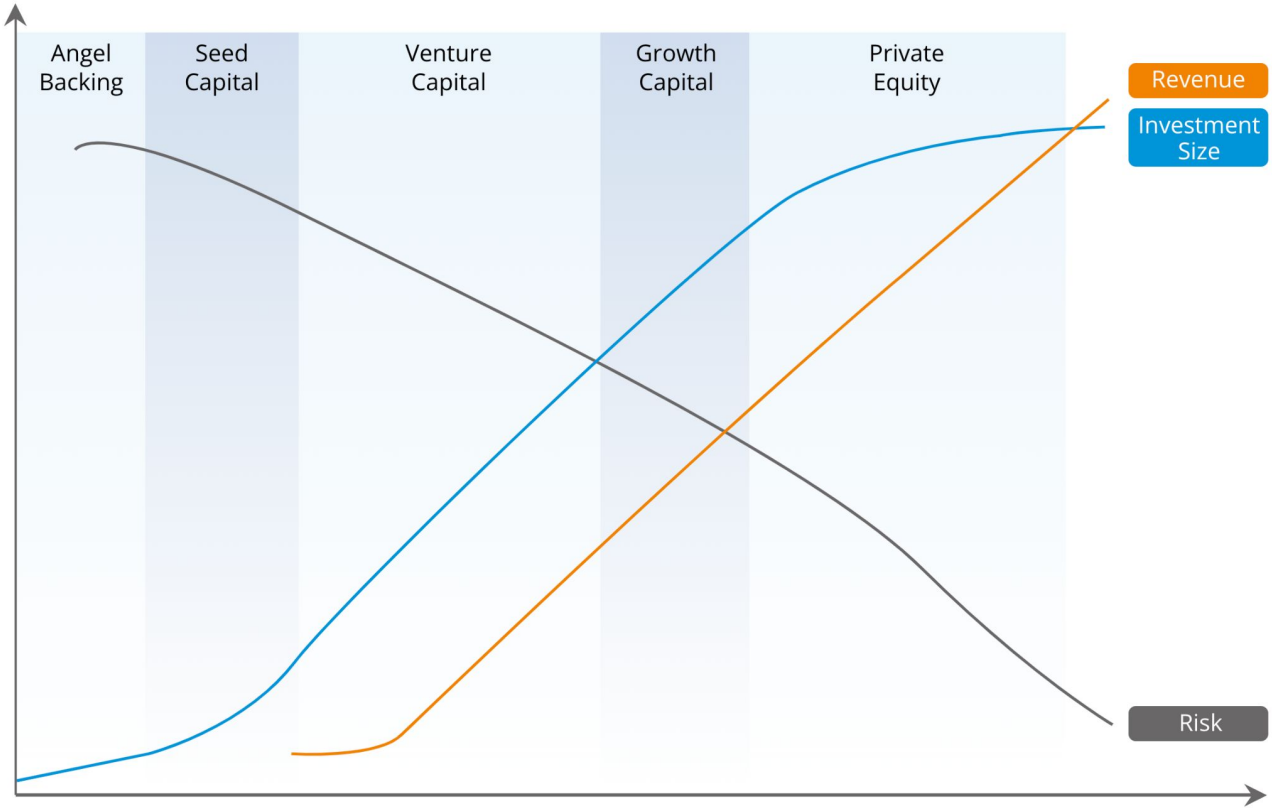
<u>Lenders</u>

- Banks
- Private & specialty lenders
- Non-profit lenders

<u>Loans</u>

- Balance sheet and cash flow
- Asset-backed
- Character-based, social value

Equity Risk Curve



https://www.preqin.com/academy/lesson-4-asset-class-101s/private-equity-venture-capital/privateequity

Investors' Perspectives

<u>Angels</u>

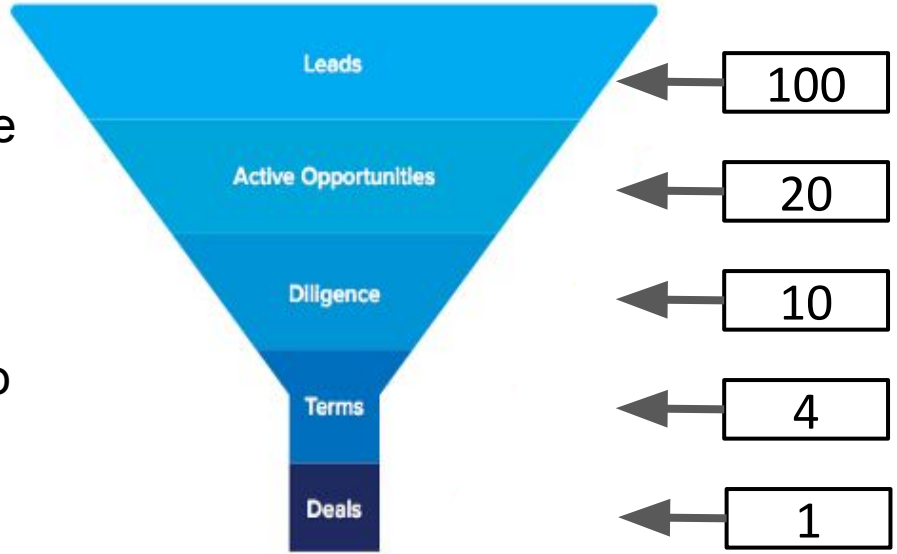
- Investing own money
- Many different backgrounds
- Many different reasons
- Often no external timeline to make decisions

<u>VCs</u>

- Investing other people's money
- Financial backgrounds
- Focused on financial returns
- Have timelines for deploying investment capital

VC Pipelines & Economics

- Plenty of opportunities
- Limited bandwidth for due diligence
- Small fraction of opportunities become investments
- Expect 3/10 to go bankrupt, 3/10 to break even, 3/10 to return 2-3x, and 1/10 to return 100x+



Source	Count	Share
Personal savings	322	67.2%
Bank loans	248	51.8%
Credit card	163	34.0%
Family	100	20.9%
Business acquaintances	57	11.9%
Angels investors	37	7.7%
Close friends	36	7.5%
Venture capitalists	31	6.5%
Government grants	18	3.8%
Have not used finance	65	13.6%

The most common sources of funding for high-growth companies (Research and chart by Kauffman Foundation)

https://www.washingtonpost.com/news/on-small-business/wp/2015/03/16/no-entrepreneurs-most-of-you-dont-need-angel-investors-or-venture-capitalists/

Next Step

> Interpersonal connections have more influence than the quality of the investment opportunity or terms of the deal.

Michael Luni Libes

Read “Why Some Startups Get Funded…” @ UnreasonableGroup.com

Goals

Today

- Types of capital & types of capital providers
- Identifying likely sources

Future

- The importance of quality networking
- Tips and tools to find the specific organizations and people
- Communication suggestions for interacting with potential capital providers
- Preparing to negotiate agreements

Questions

Noa Simons

linkedin.com/in/noasimons2