

# **Funding Sources**



# Before you can get funded, you have to know where to look

Before you know where to look, you need to understand what you are



## Entrepreneurship comes in many types

SOCIAL VENTURE COMPANY

NORMAL GROWTH COMPANY

HIGH GROWTH COMPANY

EXTREME
HIGH GROWTH
COMPANY

- Goal is to fulfill a social need
- Has mission orientation
- Team needs to support mission
- Growth profile often one resource at a time
- Exit ...much harder to find fit

- Includes all service businesses
- Exploiting a local market need
- Team has 'great jobs'
- Growth by adding resources one by one
- Exit will be based on value of cash flow (mature biz.)

- Company can grow fast (on-line) or has a scalable system
- Team often motivated by exit
- \$7-10M revenue in 5 yrs & market size allows significant additional growth
- Capital efficient total investment\$2-4M
- Exit by M&A

- Growth profile ultra-scalable
- Team focus is exit
- Revenue \$40M+ with lots of room for growth (5 yr.)
- Based on \$20M+ investment
- Exit targeted to IPO or by 'large' M&A event



## What Type of Company Are You?

- In many cases the nature of the business decides the type of company ...
- In others, changing how you bring the product to market can really affect the cost of scaling and the funding requirements
  - Example: license new battery technology to existing players vs build a battery company with outsource manufacturing or build a manufacturer
- Every company's financing path is unique
- Funding comes in distinct flavors; all financial partners are specialists



# Match Funding Sources

SOCIAL VENTURE COMPANY

NORMAL GROWTH COMPANY

HIGH GROWTH COMPANY EXTREME HIGH GROWTH COMPANY

- Friends family, founders
- Charity\$\$
- Crowd funding (Kickstarter, etc)
- Impact Angels
- (Future) Crowd funding (portal style)

- Friends, family, founders
- Debt, Bank, and other
- (Future) Crowd funding (portal style)

- Angels
- Angel Groups
- Angel Group Syndication
- Angel List
- Micro-cap Funds
- (Future) Crowd funding (portal style)
- Increasingly Strategic Corporate VCs

#### Early on

- Accelerators
- Individual Angels
- Micro Cap VCs
- Seed from VC

#### Later stages

- Venture Funds
- Strategic VCs
- Angel Syndication



### **Debt Capital**

 Funding based on a set schedule of principal and interest payments that provide a fixed return for the lender. Availability may be based on asset value or cash flow or personal guarantee

#### – Sources:

- Personal Loans Friends/Family
- Bank Loans
- SBA Loans
- Expect debt classes from Jobs Bill crowd funding portals
- Credit Cards



## Equity Capital: Shared Upside (VC / Angels)

- Requires an exit:
  - IPO & Private Equity
  - M&A (most)
- VCs invest other people's money
  - Returns are measured on a per fund basis
  - Focus find the best & adding resources to aid success
  - \$26.5B annually, ~ 3,700 new investments 2012
- Angels invest own money
  - Prefer capital efficient / early exit opportunities
  - ~\$23B annually, ~ 67,000 new investments 2012
  - 26 New England



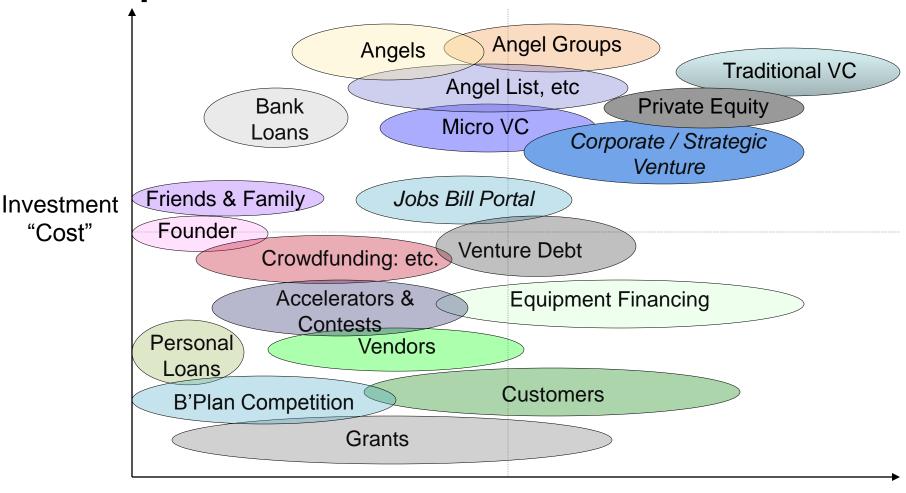
## Alternative Sources of Capital

- Business Plan Competitions and Accelerators
  - Many firms gain enough for some product completion
- Revenue Best of all (Bootstrapping)
  - Revenue history opens more fundraising oportunities
  - Pre-payments, etc.
- Vendors, partners and customers
  - Including NRE to build joint product
  - Great source of quick capital for marketing or sales collaboration
- SBIR Grants
  - ~\$2 Billion department specific funding
  - 2 or 3 'research' calls from each department each year, must be used for research ... then you commercialize with other funding
- Other government funding
  - i.e. Mass Life Science & Sustainable Energy, Mass Growth Capital —loans or convertible notes



"Cost"

# Capital Sources: Size & Cost



Investment Size