Financing 101

. . . If I only had the money

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Blackstone Accelerates Growth

Overview

- Aimed creating growth and critical mass
- Programs to Accelerate
  - Companies
  - Connections
  - The Next Generation of Entrepreneurs
- 1st Innovation Hubs
  - Portland
  - Bangor
- More info at www.blackstonegrowth.com

Framework for understanding Capital

- Lots of different products
- Key to understanding → a firm grounding in the basics:
  - Debt and
  - Equity

Investing and Returns

High Potential

Steady Cash Flow

What is in the middle?

Nothing

Investing and Returns

High Potential

Steady Cash Flow

Investing and Returns

Equity

Debt

Debt – What is it?

- Lump sum to borrower that is paid back over time
  - Steady payments
  - Similar to products you already know:
    - a mortgage or car loan (secured term debt)
    - A credit card (unsecured revolving debt)

Debt – What Matters

- The three Cs
  - Collateral
  - Capacity (Cash Flow)
  - Credit (Character)

Debt – What Matters

- Key Factors for start ups
  - Debt for start-ups:
    - Often is equity in disguise or
    - Based on the principal's stand alone credit
  - Why? → Start ups often are missing all 3 Cs
    - no cash flow, few if any assets, little history

Equity – What is it?

- A claim on the residual assets and cash flows of the firm

- Similar to owning a lemonade stand with a friend:
    - After expenses you split what's left
    - If you sell the stand you split the proceeds

Equity – What matters

- Investment needed/sought

- Potential Return
  - Growth
  - Profitability/Margins
  - Time
  - Risk

Equity – What matters

- Key factors for start-ups
  - Timing and size of 1st revenues
  - Cash:
    - On hand
    - Burn rate
    - Total Needed for growth
  - Expected growth, market size and positioning

Debt & Equity – Some Key Differences

- Exits
  - Debt → usually has a built-in exit for investor
  - Equity → often no built in exit for investor
    - Exits usually come from sale of the business or refinancing

- Control
  - Debt → control through covenants and security
  - Equity → control generally exercised through board of directors.

Growth Path of a Firm

Idea **Champion** **Team** **Product** **Customers**

Personal Savings

Grants

Friends & Family

Angels

Venture Capital

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Process and Expectations

- Financing will take significant time:
  - 6-12 months for equity
  - Less time for debt

- Why
  - It's competitive
  - Diligence and establishing trust
  - Often it is a committee or group decision

- Things you say early on about what you will do need to come true before closing your financing

Your Business is a Story

- Tell people:
  - Why your product/service is compelling
  - How it fits in the market
  - Why you have the background to grow it
  - What you have done to make it real
  - Where you are headed next and what you need

Advice

If I only had the money . . .

. . . All I need now is the money