Financing 101

... If I only had the money

John Voltz
Executive Director, Blackstone Accelerates Growth

The Friendly Shark Tank: Financial Resources for Businesses & Entrepreneurs
Portland, Maine – November 6th 2011
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

Steady Cash Flow

High Potential
What is in the middle?

Nothing
Investing and Returns

Steady Cash Flow

High Potential
Investing and Returns

Debt

Equity
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 $\rightarrow$ usually has a built-in exit for investor
  – Equity $\rightarrow$ often no built in exit for investor
    • Exits usually come from sale of the business or refinancing

• Control
  – Debt $\rightarrow$ control through covenants and security
  – Equity $\rightarrow$ control generally exercised through board of directors.
Growth Path of a Firm

- Idea
- Champion
- Team
- Product
- Customers

Sources of Funding:
- Personal Savings
- Grants
- Friends & Family
- Angels
- Venture Capital
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