2220 - Entrepreneurial Finance and Venture Capital

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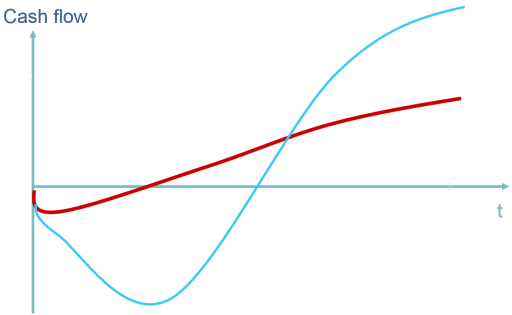
Lecture #2

Business models and cash flow curves



- Different business models and growth trajectories generate different cash flow patterns

Two key business model parameters

- Analyzed business model in terms of two key parameters
- Profitability
- Asset intensity = Net Operating Assets / Sales
- As we'll see next class, cash flow curves and funding needs are driven by the interaction of these two parameters with growth

Why asset intensity is key for startups

1. Asset intensity increases the cash you need to grow
    - Fast growth often not optional, need to win the market to survive
2. External finance is expensive for startups
    - Very high VC discount rates
    - High asset intensity business models are often not viable

- Question: can asset intensity be negative?
    - Yes – and in that case the faster you grow, the less cash you need
    - Will see example next class

Next class

- Problem set 1
- Pre-reading: "A Simple Free Cash Flow Valuation Model"
- Please submit your answers on moodle