_Funding

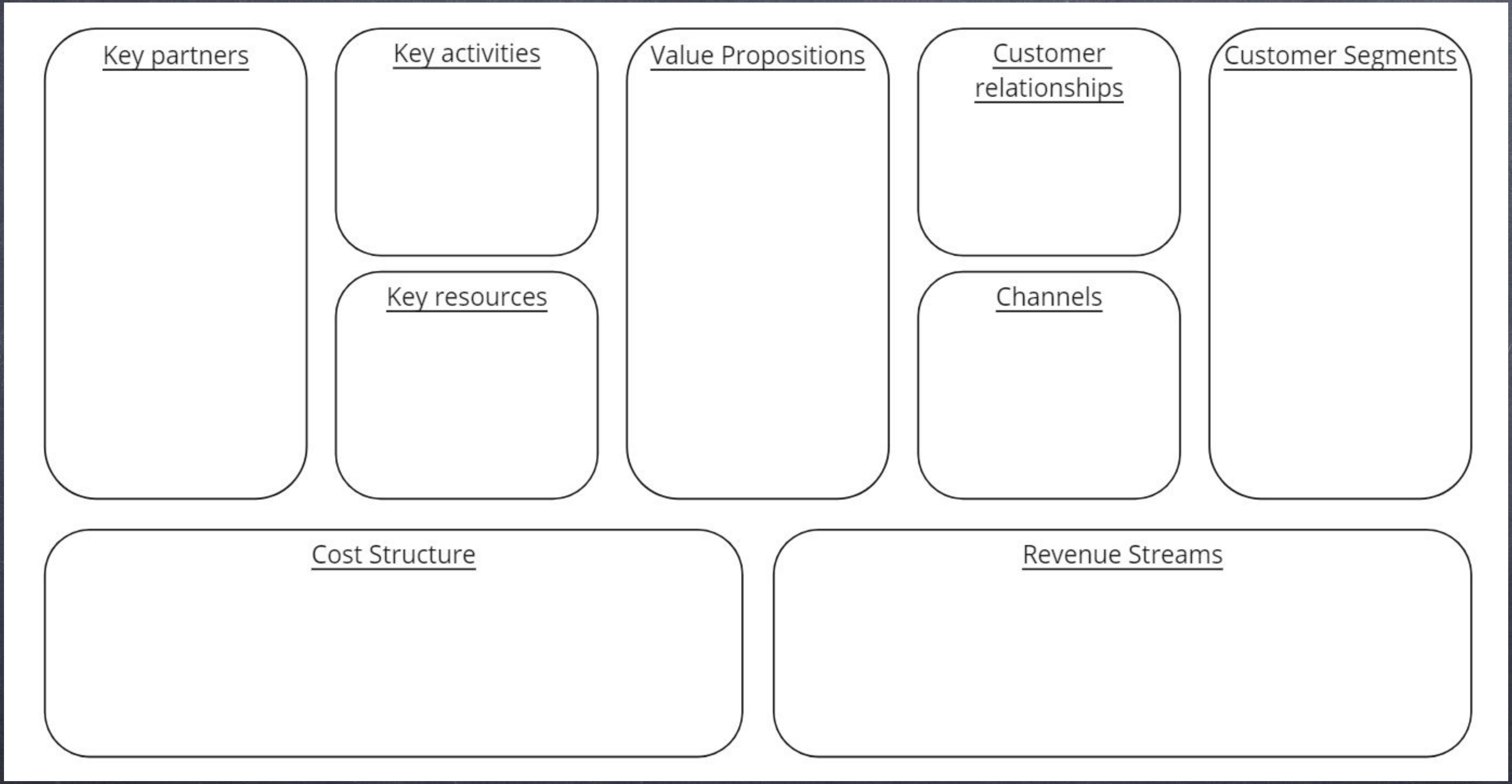
Abrao Kulaif | Week 4
Principles of Management | 2025

NOVA SCHOOL OF BUSINESS & ECONOMICS

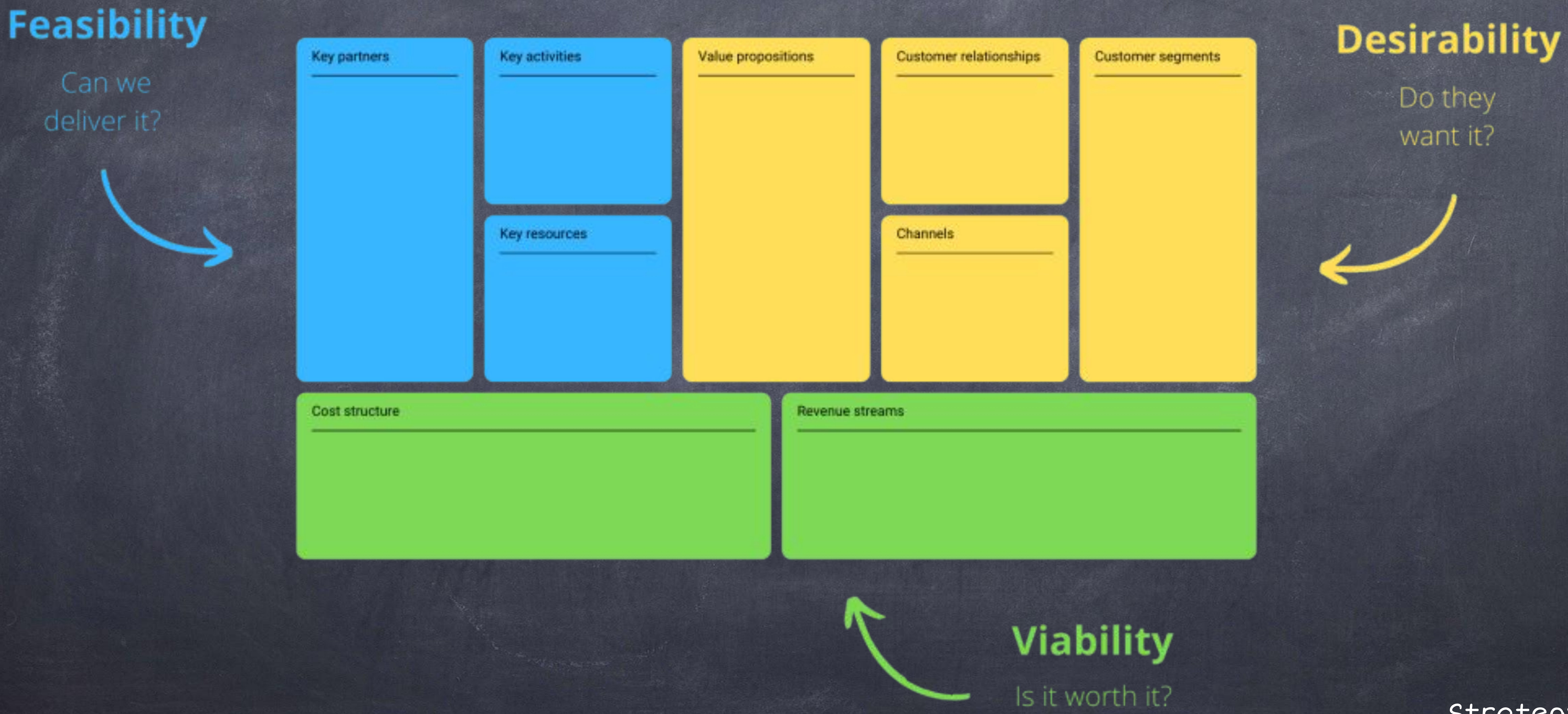
To recap

- ✔ Business Model Canvas

_BMC


Key partners
Key activities
Key resources
Value Propositions
Customer relationships
Channels
Customer Segments
Cost Structure
Revenue Streams

_Framing it differently



Strategyzer

How to build/fund a business?

_funding

In short, there are three general sources of funding for companies:

1. Retained Earnings
2. Debt
3. Equity

1. Retained Earnings:

- by selling a product or a service
- then invested back to the company
- “bootstrap”

2. Debt:

- through banks, other financial institutions and general lenders
- principal + interests
- tax deduction
- no dilution

3. Equity:

- angels, VCs, IPOs
- no tax benefit
- no repayment
- dilution in ownership
- tension between investors and founding team

_funding

ASSETS

DEBT

EQUITY

The entrepreneurial venture needs capital

Would you rather receive debt or equity? Why?

_valuation

Equity deals imply setting a VALUATION to companies.

_valuation

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Common ways to do it:

- ✔ *market comparables*
- ✔ *discounted cash flow (DCF)*
- ✔ *multiples*

_valuation

Equity deals imply setting a VALUATION to companies.

Challenges:

- ✔ *limited financial history*
- ✔ *subjectivity*
- ✔ *market dynamics*
- ✔ *intangible assets*

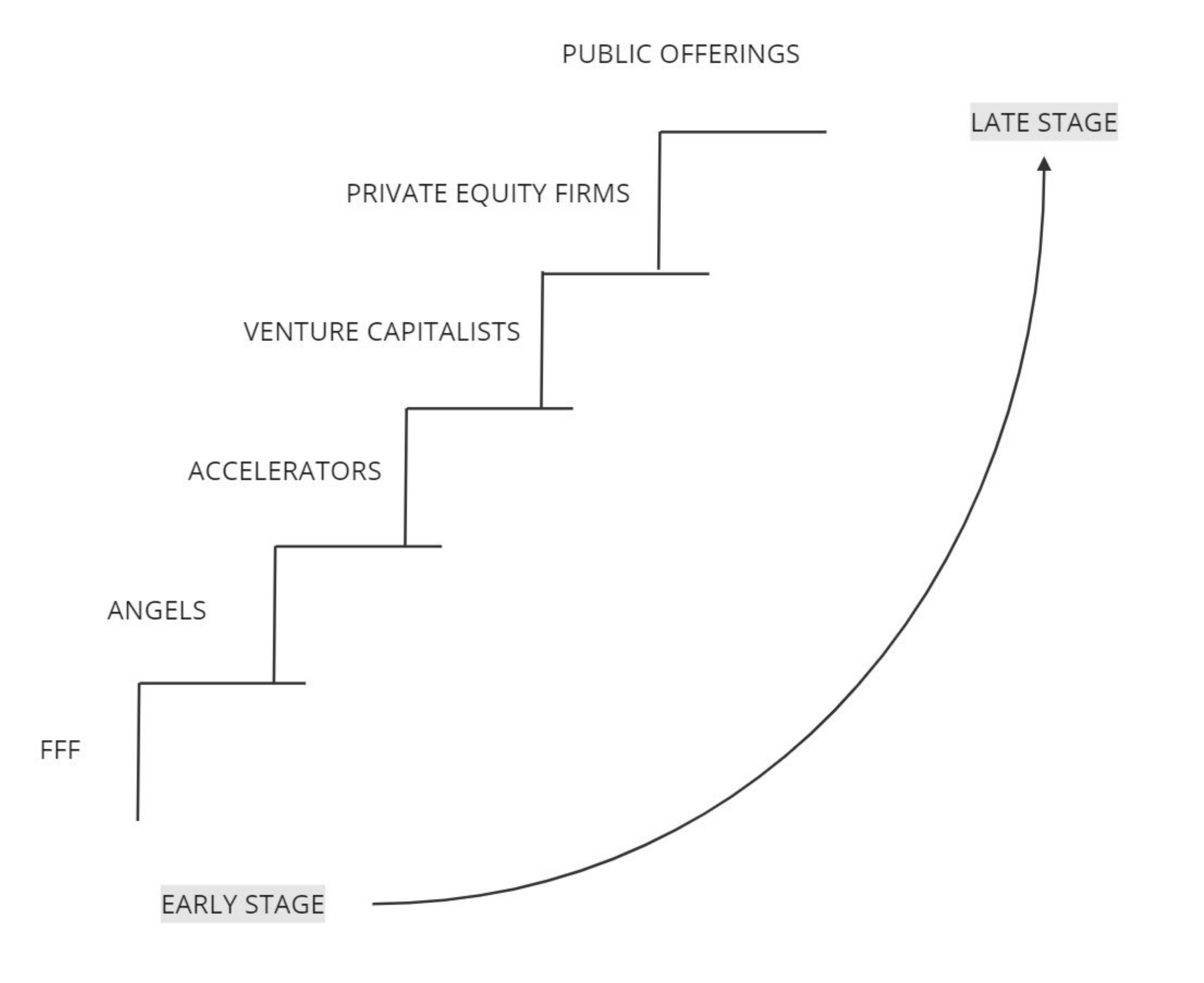
_valuation

Equity deals imply setting a VALUATION to companies.

To note:

- ✔ *founding team play a significant role in early-stage investments*
- ✔ *market size and potential*
- ✔ *exit strategy – is there any? Show it!*

_funding


PUBLIC OFFERINGS
LATE STAGE
PRIVATE EQUITY FIRMS
VENTURE CAPITALISTS
ACCELERATORS
ANGELS
FFF
EARLY STAGE

_funding

- Family, friends and fools (FFF)
- Angels / Crowdfunding
- Accelerators
- Venture Capitalists (VCs)
- Private Equity firms (PE)
- Public Offerings (IPOs)

_angels

Angel investors are individuals who provide capital for startups in exchange for ownership equity or convertible debt.

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When?

- ✔ *often early-stage with high growth potential*
- ✔ *non-financial support (mentorship, connections)*

_convertible debt

Short-term debt that can be converted into equity.

_convertible debt

Short-term debt that can be converted into equity.

It includes:

- ✔ *principal amount invested*
- ✔ *interest rate (if any)*
- ✔ *maturity date*
- ✔ *conversion terms*

_convertible debt

Short-term debt that can be converted into equity.

Why?

- ✔ *flexibility*
- ✔ *risk mitigation*
- ✔ *upside through equity conversion*

_convertible debt

Short-term debt that can be converted into equity.

Why?

- ✔ *flexibility: resources with no need for valuation*
- ✔ *risk mitigation: hedging for investors if things not go so well*
- ✔ *upside through equity conversion: upside in case things go well*

_crowdfunding

Crowdfunding involves raising funds from a large number of individuals, typically via online platforms.

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Why?

- ✔ *lean way to validate ideas*
- ✔ *good to generate buzz*
- ✔ *way to engage with target audience*

_VC

The Venture Capital game:

SPEED (!!!)

WHY? Idiosyncratic* risk!

** Idiosyncratic means unique to an individual.*

The Venture Capital game:

Differently from average returns on a portfolio of stocks...

Stock A up by 10%

Stock B down by 15%

Stock C up by 20%

GOOD!

...

The Venture Capital game:

... In VC game:

Startup A flat

Startup B generating no profits

Startup C up by 1.000%

GOOD!

...

_CVC

CVC (corporate venture capital) refers to investments made by established corporations in startups and innovative ventures.

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Why?

- ✔ *strategic investment*
- ✔ *facilitator of partnerships, collaboration, potential M&A*
- ✔ *e.g. Google ventures has invested in Uber, Slack and a lot more*

_private equity

Private equity involves investing in companies that are not publicly traded on the stock exchange.

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Why?

- ✔ *improving operations*
- ✔ *increasing profitability*
- ✔ *leading, eventually, to sell the company at a profit*

#s between vc’s and pe’s

Venture Capital vs. Private Equity

#s between vc's and pe's

Venture Capital vs. Private Equity

1. *stage of company lifecycle*
2. *investment size and structure*
3. *risk and return profile*
4. *Investment horizon*

#s between vc's and pe's

Venture Capital vs. Private Equity

1. *stage of company lifecycle:*

   early-growth (VC)

   vs.

   mature (PE)

#s between vc's and pe's

Venture Capital vs. Private Equity

2. investment size and structure:
smaller tickets (VC)
vs.
higher tickets (PE)

#s between vc's and pe's

Venture Capital vs. Private Equity

3. risk and return profile:
higher risk (VC)
vs.
lower risk (PE)

#s between vc’s and pe’s

Venture Capital vs. Private Equity

4. Investment horizon:
longer (VC)
vs.
shorter (PE)

To come:

✔ A deep analysis: bootstrap vs. external sources of funding

See you on next session :)