

# Private Capital Series For Entrepreneurs

Funding Your Strategy

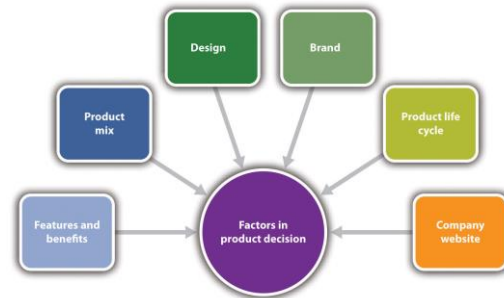
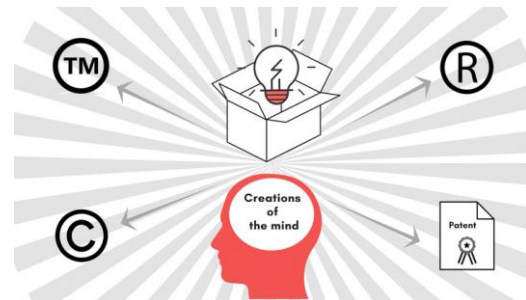
# Define your desired outcome

License, Spin off, Sell IP

***Funding strategies must align with your objectives and your “investors”***

Create a product line

Product focused business



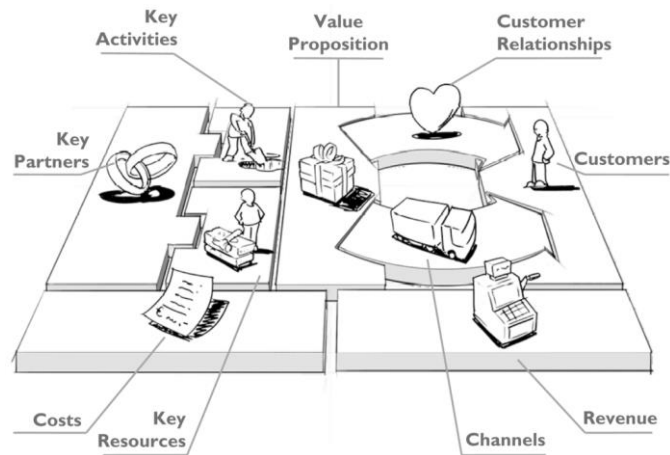
# Define your capital need

**How Much**

**When**

**Why**

- Business Model Canvas
- Technology Roadmap
- Business Roadmap



# Internal <> External

- R&D
- Capitalization
- Partnerships
- Contract Strategy

- Public Market Debt
- Grants
- SBIRs
- CSOs
- In-Q-tel

- Private Market Debt
- Equity related
  - Private Capital
  - Private Equity
  - Venture

***There are gray areas, overlaps, parallel, and exclusive paths***

# Internal

- R&D
- Capitalization
- Partnerships
- Contract Strategy

Can you move fast enough to demonstrate differentiated product market fit?

- Complexity in focus on roadmap and “deliverables”
- Limitation of company resources extending the time to market
- Dilutive IP rights

# Partnerships

## Pros:

- Your partner can also become a customer
- Aligned interests
- Can be significant funds
- Can leverage their channels

## Cons:

- Can come with onerous terms
- Can fail apart easily
- Corporate bureaucracy and leadership changes can delay funding
- Need to ensure you're not locked into exclusivity
- Danger of being over-indexed on one customer



# External Public

- Public Market Debt
- Grants
- SBIRs/STTRs
- CSOs
- In-Q-Tel (Projects)



# External - Private Capital Incentives

- Lenders Dept - “Riskless” return
  - Annual Percentage Yield
- Venture – Risk based return
  - Internal rate of return
  - Bragging rights (Next Google)
- Private Equity
  - Return on invested capital
- Hedge/Secondaries





# Risk Return Measures

Bank  
Loan

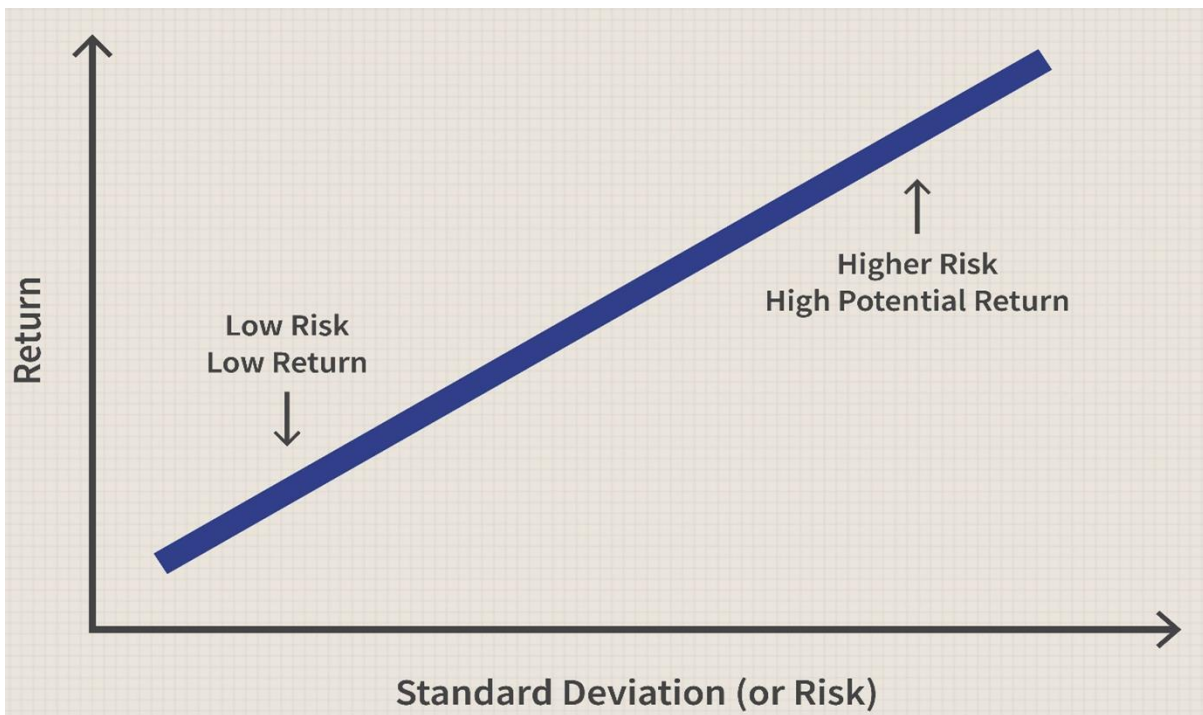
Private  
Credit

Buyout PE,  
Venture Debt

Warrant  
Coverage

Late  
Venture

Early  
Venture



Return on  
Invested Capital

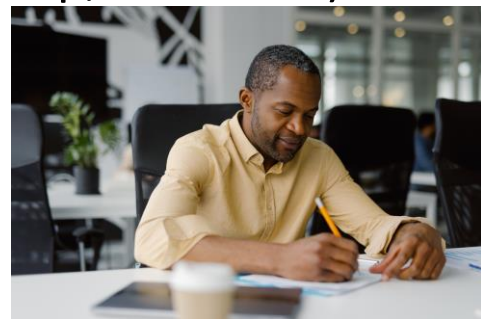
*Immediate return,  
risk spreads (bp)*

Internal Rate of  
Return

*Illiquidity premium,  
10x*

# Lenders – No equity, senior debt

- Institutional
  - Personal
  - Business (personal loan Guarantee, Collateralized)
  - Vendor Financing (Capital Purchases)
  - Factoring (collateralized receivables)
  - Revolving (Brex)
  
  - Venture Debt (Business loan, collateralized relationship, Warrants)
- Private Loans (Friends & Family)
  - Don't qualify to invest in a fund
  - Higher rates than banks/bonds
  - Filling the gap left with venture debt
  - Can say they are an investor



# Private Equity

- Focus is on company fundamentals
  - Strong returns (Revenue & Margin)
  - Growing long term returns
  - **Distressed properties**
- Equity provided in exchange for
  - Working capital
  - Restructure
  - Carve out (spinoff)
- Often resulting in change of control
- Typically with strings
  - Performance incentives
  - Dividend payments
  - New management/leadership
  - Tax implications



# Venture

- Focus is on future potential
  - Team
  - Differentiated solution
  - Market size
- Use of funds - create momentum
  - Time to product market fit for an enduring differentiated value proposition
- Preferences build to an exit



*“Startup is an organization formed to search for a repeatable and scalable business model*

A startup is not a small version of a big company”

– Steve Blank

# Venture is a spectrum with different goals

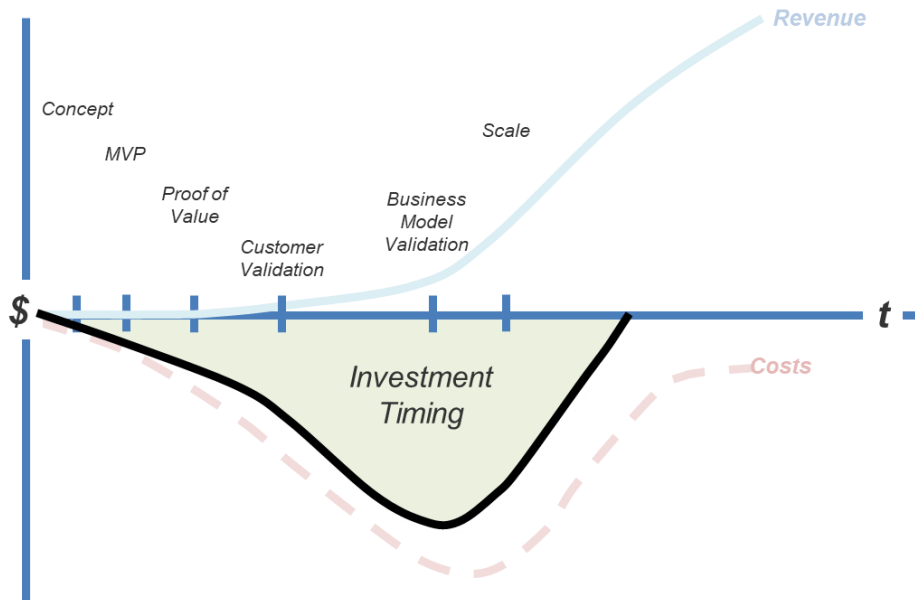
- Lead verses Follow (IQT)
- Priced vs Unpriced
- Seed – Value proposition
- Series A – Demonstration of value
- Series B - Demonstration of business model
- Series C – Demonstration of Scale

*There is so much distortion  
in terms*

- Accelerators (Y combinator)
- Network access
- High dilution
- Platforms (Angel's list)
- Crowd Sourcing
- Investor networks

# The Venture Startup Curve

Intentional Valley  
of Death and at  
speed



# What's required to obtain Investment readiness?

It depends on your objectives

- Interrelated topics but...is
  - product market fit and
  - investment viability (diligence factors).
- Deeper dive
  - What makes venture tick and tools of the trade
  - Diligence factors
  - Market assessment

