Funding Your Business

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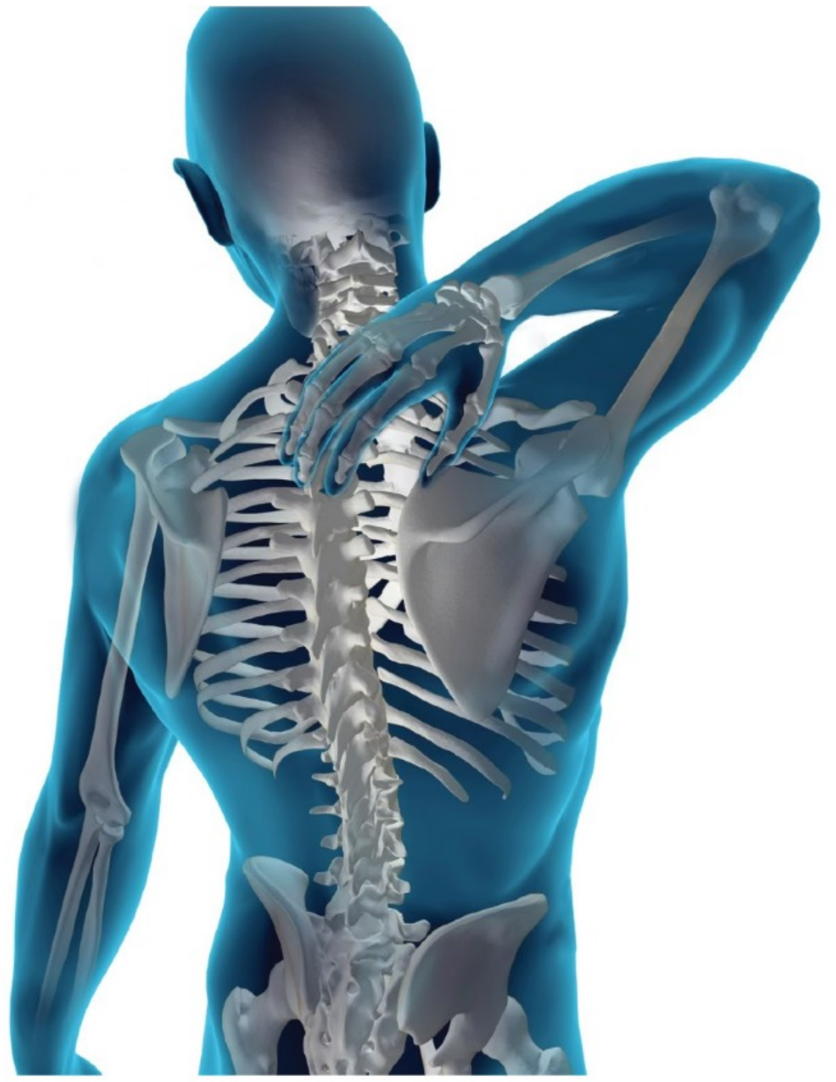
Introduction

- Early Career: featured on Bloomberg Techstars, SXSW Speaker
- First patient specific apps on iOS
- Sold IREHAB in 2015 to VC firm
- Self funded speciality clinics (Kalo multi speciality), sold to individual investor
- Desktop Metal: Key Opinion Leader: acquired for $179 million
- Financial Advisor: Edward Jones
- Hawaii Pacific University: Adjunct faculty
- Nowell Family Foundation: Finance Chair
- Community Health Center Foundation Chair

Physical Therapy via Your Phone

MARCH 4, 2013 BY STACY YUEN



Innovations

How the 3D-printing community worldwide is aiding Ukraine

Facing shortages on the battlefield, Ukrainian soldiers are getting supplies they need from those with the printers

June 12, 2022 More than **3 years ago**

7 min Summary 34

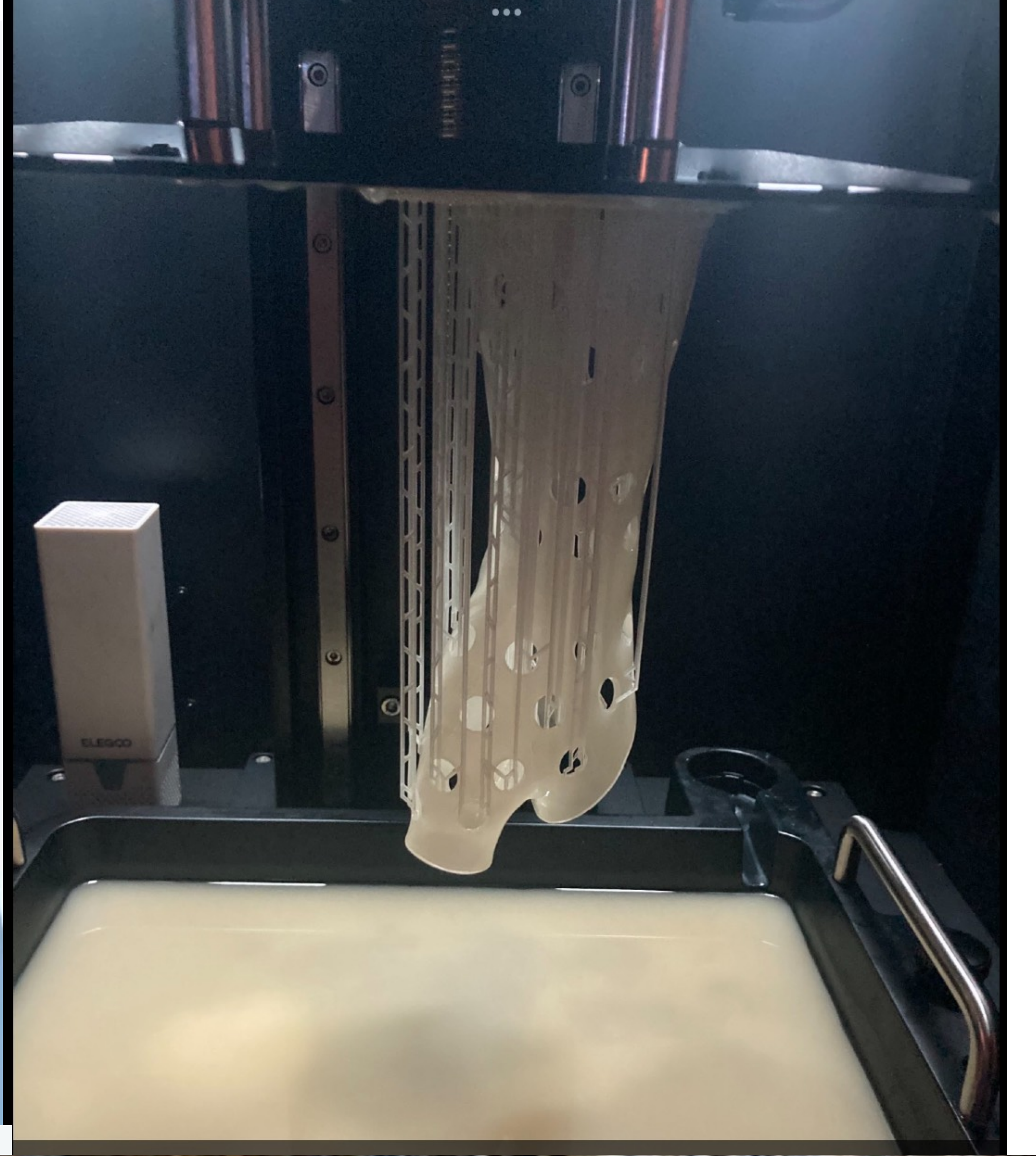
Introduction Cont.

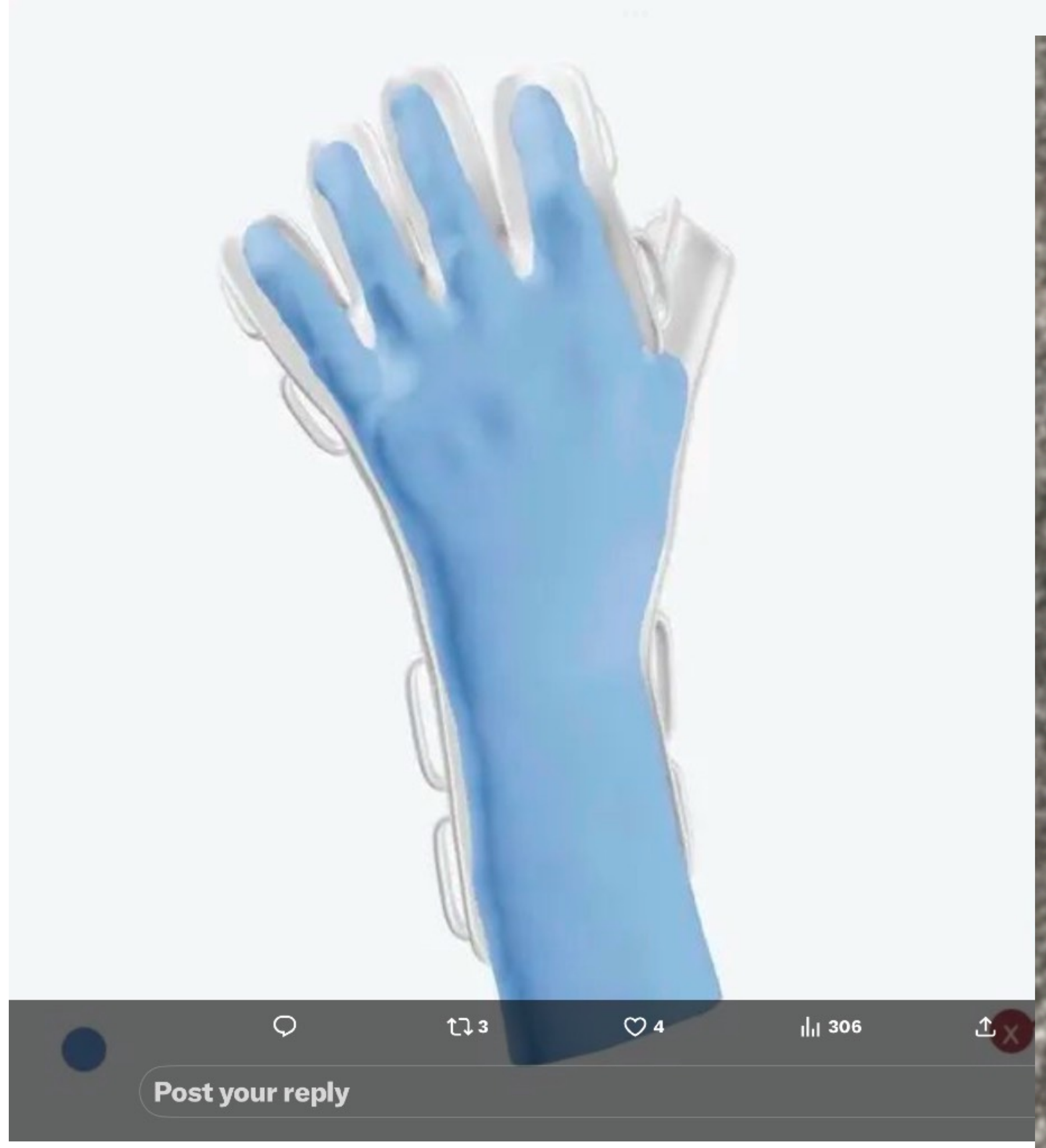
- A side project might end up being more valuable than your original business

- Are you too much of a pioneer, or is there a movement behind your business / idea?

- Is this a business you want your family to forever own, or do you have other ideas?

- Are you doomed to succeed?






The best ways to raise money for your startup
01
Crowdfunding
02
Pre-selling
03
Angel investors
04
Venture capitalists
05
Government grants
06
Business loans
07
Personal savings
08
Family and friends
09
Partner with another company
10
Run a contest or promotion

Methods

- 1. Self Funding (boot strapping)
- 2. Debt Financing (loans)
- 3. Equity Financing (investors)
- 4. Grants
- 5. Crowd Funding

Self Funding

Using your own resources (savings, hopefully not retirement savings)

Pros: Keeping complete ownership and control

Cons: Risking personal assets and potentially limiting growth

Strategies: Keep a 6 month personal emergency fund, leverage free marketing tools, Keep your day job while building audience, don’t hire till you have to, start with a minimally viable product

Debt Financing

Borrowing money from outside source with the promise to repay principal plus interest

Pros: Keeping control and ownership, not having to take on new partners / give away equity

Cons: Having to repay the loan vs. having a general partner

Strategies: Try to avoid new debt, understand how much you might save by paying loan off early, check and see if refinancing is an option

Loan Types

- Term Loans: Lump-sum loans repaid over a fixed period, used for equipment, real estate, or working capital. Terms range from 1 to 25 years
- Lines of Credit: Flexible credit lines for ongoing expenses, interest only on the amount drawn. Rates (fixed or variable) and terms range widely
- SBA Loans: Government-backed loans with longer terms (up to 25 years), lower down payments (10-20%), and competitive rates.
- Equipment Financing: Loans for purchasing machinery or vehicles, often secured by the equipment itself, with terms up to 5-7 years.
- Micro loans: Smaller loans (up to $50,000) for startups or specific needs, offered through SBA intermediaries.
- USDA Loans: Land, livestock, equipment, feed & seed, farm improvements, family living expenses. Term 7-40 years, amount varies purpose
- Margin Loans: Borrowing against the value of your own brokerage account

Loan Cont

1. Small businesses: Seen as riskier due to higher default rates, leading to stricter criteria. Only 45% of small firms secure bank financing compared to 72% for larger firms.

2. Time in Business: Most banks require at least 2 years under current ownership. SBA loans may be available for businesses with less than 2 years.

3. Cash Flow and Repayment Ability:

- Banks analyze cash flow to ensure the business can cover loan payments. A debt service coverage ratio (DSCR) of 1.25 or higher is often required. (NOI / Debt Service)
- Detailed financial statements, tax returns, and projections are typically needed.

4. Purpose and Documentation:

- Loans must be for a sound business purpose (e.g., expansion, equipment, working capital). Lenders require documentation like articles of incorporation, tax returns, financial statements, and business plans.
- Transparency about fund use and repayment strategy is critical.

Equity Financing

Think - Shark Tank

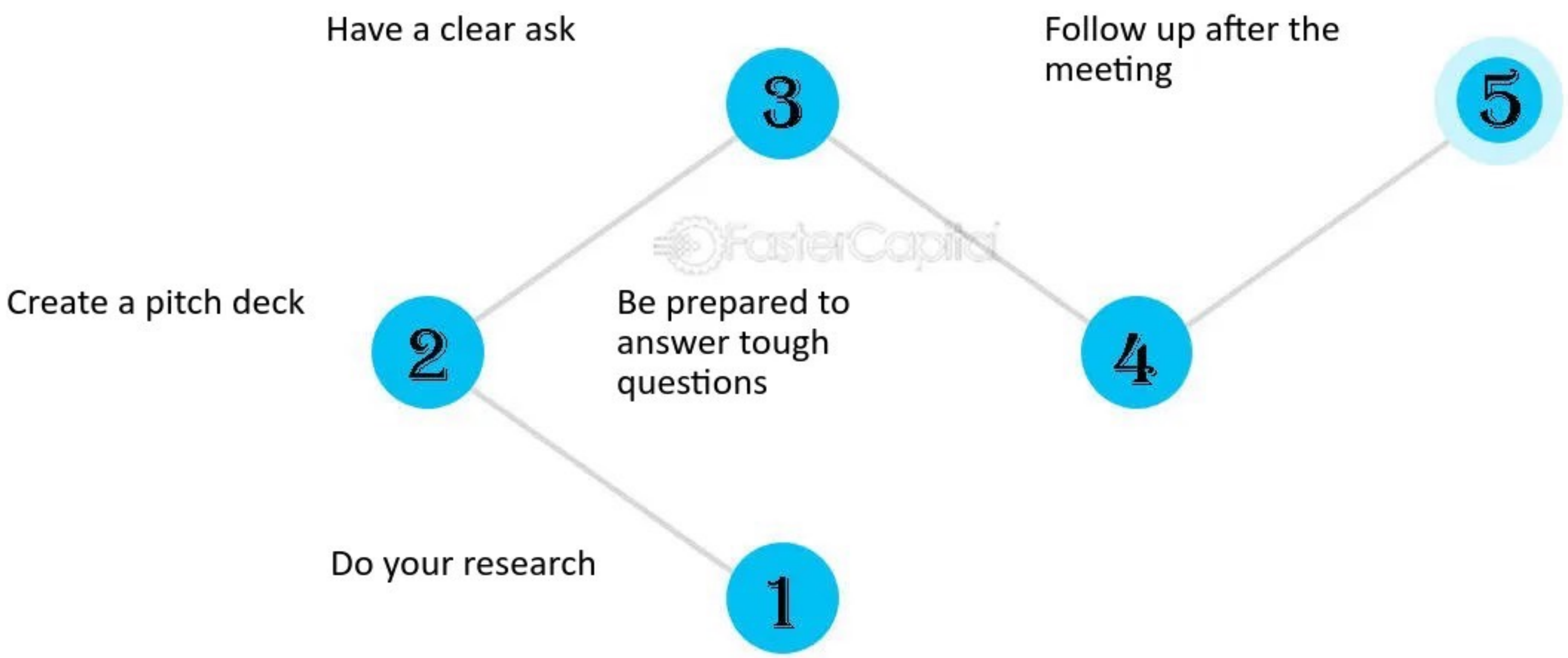
Angel Investing, Venture Capital & Private Equity

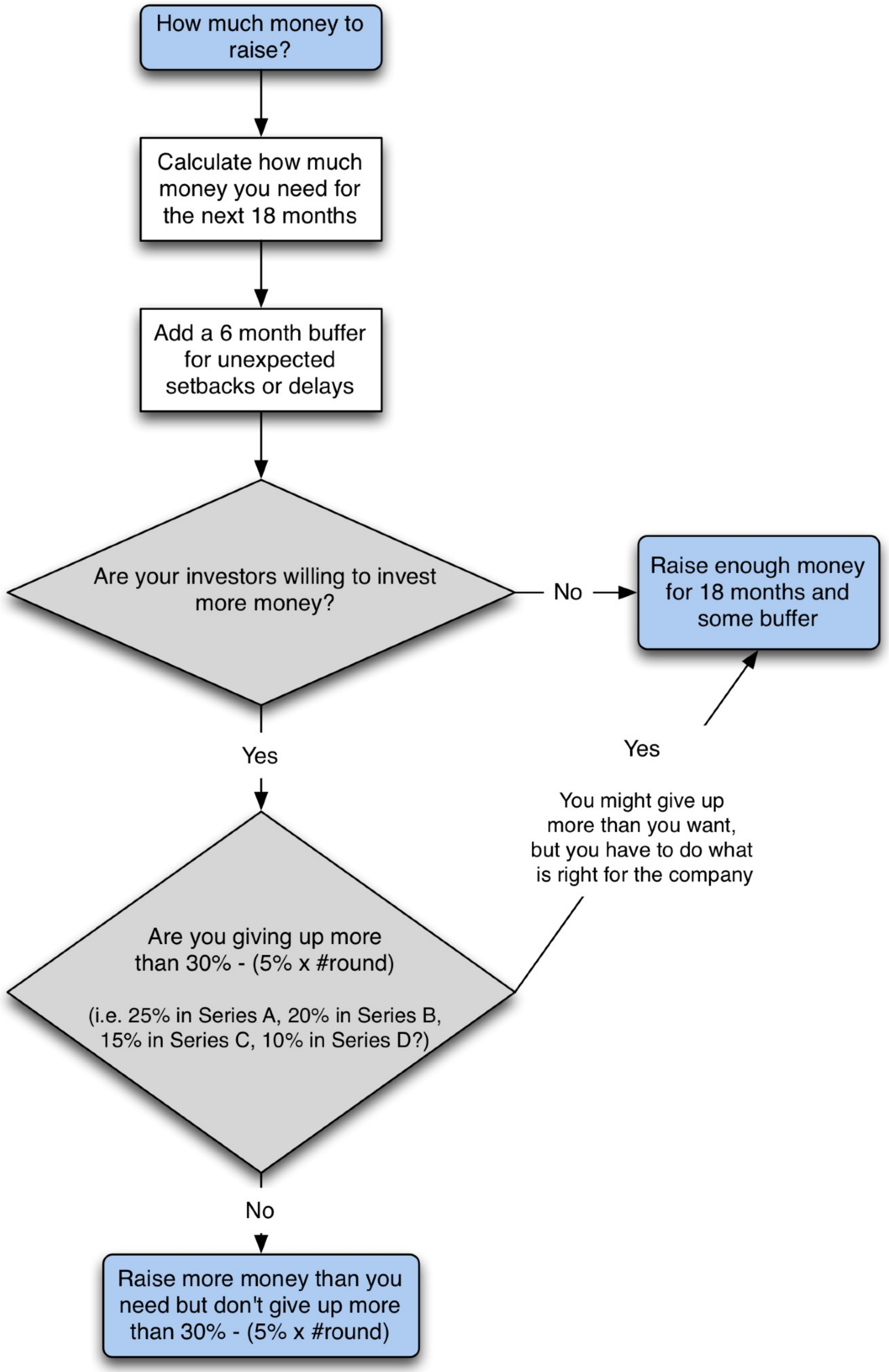
Angel Investing: Solo investor that lends capital but not sweat

Venture Capital: Focus on early stage businesses with high growth potential

Private Equity: Large transactions, usually to overhaul a business or take it public

Approaching Potential Investors




How much money to raise?
Calculate how much money you need for the next 18 months
Add a 6 month buffer for unexpected setbacks or delays
Are your investors willing to invest more money?
No
Raise enough money for 18 months and some buffer
Yes
Yes
You might give up more than you want, but you have to do what is right for the company
Are you giving up more than 30% - (5% x #round)
(i.e. 25% in Series A, 20% in Series B, 15% in Series C, 10% in Series D?)
No
Raise more money than you need but don't give up more than 30% - (5% x #round)

Angel Investors

Who are they?: Ranges for very formal to very informal

A. Can be an individual

B. Can be a group pooling together - Hawaii Angels

How Much?: Typically $25k - $100k exchanging for 15% - 20% equity

Why?: Proof of concept funds, coaching

Advice: Match your business to the correct investor, don’t just take $ from anyone

Venture Capital

Who are they?: Firms, typically pooling funds from a mix of: Private Investors, Endowments, Pensions. Large businesses might have their own venture arm: Kaiser Ventures, EdVentures

How Much?: Seed Round: $500,000 - $5 million, Series A: 1-2 million - 15 million

Why?: For businesses that are growing rapidly and need $ infusion to keep up with demand

Advice: Smart money (experience) is better than just a check, Understand what a likely exit looks like for the VC firm

Look for a VC firm that specializes in your type of business

Private Equity:

Who are they? Firms that pool money from: private investors, endowments, pensions, insurance companies, sovereign wealth funds

How Much?: Often greater than $50 million

Why?: Consolidate an industry, restructure a business, get ready to take public

Advice: Complicated deals, assemble a team to understand the potential offer, understand firm objectives and deal structure

Crowd Funding

<u>Definition:</u> Raising small amounts of capital from a large amount of people, can involve giving equity or rewards

<u>Examples:</u> Start Engine, Kick Starter, Seed Funder, We Funder

<u>Average Range:</u> $705 from an average of 347 investors for total of $244k

<u>Pros:</u> 1. For businesses that don’t fit in the Angel / VC / PE mold.

2. Lower expectations from investors

3. Building an audience / customer base

4. Diverse base - meet potential investors for larger rounds

5. No interest rate / no loan

6. Most sites have their own team to assist with SEC filings

Crowd Funding Cont.

<u>Cons:</u>

1. Only about 40% of projects meet funding thresholds
2. Potentially having to answer to many individuals
3. Limited liquidity for investors / no clear exit strategy
4. Can set a lower precedent for equity exchange for large funding rounds
5. For individual investors - no clear exit strategy
5. SEC filings / Regulatory paperwork (Form ID and C Forms)
6. Accredited vs. Non Accredited investor, Investment cap: $2,500 or 5% of your net worth

Grants

Not Just For Non Profits

Grants: Funds given to an organization to accomplish a greater good. Not a loan, not in exchange for equity, typically has measurable goal, deliverables, and reporting

Corporate Grants: Given by large companies and part of a corporate responsibility effort. Typical Range: $35k - $50k. Examples: Fed Ex, Target, Visa, Alphabet

Government Grants: County, State and Federal levels. Not always to non profits. Small Business Innovation Research Program, Small Business Technology Transfer Program - aided by participating agencies: Depts of: agriculture, EPA, Health & Human services. Typical range: $50k - $315K, gave Samsung $4.6 Billion

Foundation Grants: Technically possible for fund a for-profit business. Can be in the form of: low interest loan to disadvantaged group. Investments in businesses within a disadvantaged area, typical range: $5k - $500k

Donor Advised Funds: Can be used to support for-profit social enterprises. Only certain firms provide this option, no specific range

Valuation

- *Coming up with a value for your business*
- 1. Asset Based: Total Assets - Total Liabilities = NAV (Net Asset Value) + a premium.
- 1(a). Premium will consider cost to duplicate / set up the same business
- 2. Market Based: Comparing your business to similar companies sold, using same multiplier
- 2(a). Most small food businesses are valued at 2 - 5x EBITDA, between 5-18x for drink businesses
- 3. Income Based: Estimating value based on likely amount of future revenue
- The exact method used will depend on what types of business and often a combination of 1-3.

Fundamental Questions To Ask Before Funding

1. *Do you want to keep full ownership and control?*

Yes = boot strapping, loans, family and friend funding, reward crowd funding, Grants?

No = Equity investments

2. *If pre-revenue: Is your idea too expensive for you to turn into a reality?*

Yes = Equity Investments, Grants? **No** = Loans

3. *Do you want an exit strategy or a business that can be your's indefinitely?*

Exit Strategy = Equity Investments. **Indefinitely** = Loans, Grants

Local Resources

Hawaii Good Food Alliance: Provides technical assistance and Capacity building grants up to $100k

KIVA: Crowdsourcing micro loans

Slow Money Hawaii: Option of 1. Peer to Peer loan 2. KIVA loan, or combo of both. Up to $15k

Oahu Resource Conservation & Development Council: Provides up to date list of available loan products for farmers

Local Resources Venture Capital & Incubators

- **Sultan Ventures - XLR8 partnership program, early to late stage ventures**
- **Blue Start ups - Mentorship program, 12 weeks, up to $250k**
- **Koa Capital - Invests in businesses with over $5 million in Annual revenue**
- **Hawaii Angels - allows very early stage start ups to have their fist pitch experience**

- Questions?

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