Startup Funding

Financing phases for a startup

Type of financing depends upon the company's development phase

along with the funding needs and risk profile

High — *Funding Needs* — *Low*

Low — *Risk Profile* — *High*

Savings Family & Friends Business Angels **Venture Capital**	Subsidies Grants Banks Quasi-Equity **Venture Capital** Business Angels	Banks subordinated and mezzanine loans **Venture Capital** Subsidies	Debt capital markets Equity capital markets Banks Private Equity

Types of Financing

Early stage ***Expansion & Growth*** ***Later stage***

Why is Venture Capital needed?

- Venture capital’s niche exists because of the **structure and rules of capital markets**.

- Entrepreneurs—and their friends and families—usually **lack sufficient funds and/or risk appetite** to finance startups.

- Banks will only finance a new business to the extent that there are **hard assets securing the debt**.

- Investment banks and public equity are both **constrained by regulations and operating practices** geared towards the public investor.

- **Venture capital fills the void** between sources of funds for innovation (meant to be corporations, government bodies, and the entrepreneur’s friends and family) and traditional, lower-cost sources of capital available to ongoing concerns.

So, what exactly is Venture Capital?

- **Definition:** Start-ups with growth potential need investment capital to grow. Investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as Venture Capital (VC) and the investors are called Venture Capitalists (VCs).

- **High risk – high return:** Venture capital investments are usually high risk, but offer the potential for above-average returns. In fact, VC is the costliest form of private capital typically available for companies.

- **Types of risk**: Investor expectation of above-average return is driven by the need to compensate for the following risks:
  - Management
  - Market
  - Product
  - Operation / Execution
  - Follow-on Financing / Exit

How is Venture Capital made available to startups?