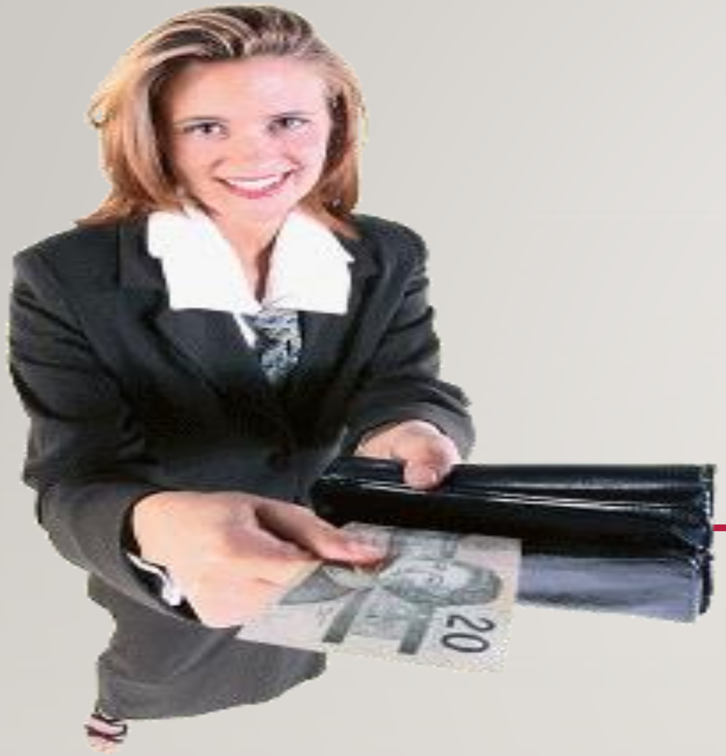

NEW VENTURE FINANCING

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THE IMPORTANCE OF FINANCE IN BUSINESS

Finance play a pivotal role in business activities through the following:

- Start-ups
- Expansion
- Develop and market new products
- Entering new markets
- Take-over or Acquisition
- Moving to new premises
- Operating expenses

IMPORTANCE OF GETTING FINANCE

- Launch the venture
- Manage the venture
- Grow the venture
- Survive the venture

- Three core principles of entrepreneurial finance
  - More cash is preferred to less cash
  - Cash sooner is preferred to cash later
  - Less risky cash is preferred to more risky cash

GENERAL SOURCES OF INVESTMENT CAPITAL

Entrepreneurs may use a mix of these sources depending on the size and stage of the venture, the amount required and the risks involved.

- The entrepreneur's own savings;
- Friends & Family;
- Personal/Business Loan;
- Retained capital;
- Retail/corporate banking;
- Incubators & Accelerators;
- Bootstrap/Crowdfunding
- Public flotation or partnerships.
- Government funding;
- Institutional/Social Grants;
- Business Angels
- Venture Capitalists;

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FACTORS AFFECTING FINANCING

- Accomplishments and performance to date
- Investor’s perceived risk and required terms
- Industry and technology
- Founders’ goals regarding growth, control, liquidity, and harvesting
- Relative bargaining positions
- Venture age and stage of development
- Investor’s required rate of return or internal rate of return
- Amount of capital required

CAPITAL QUESTIONS

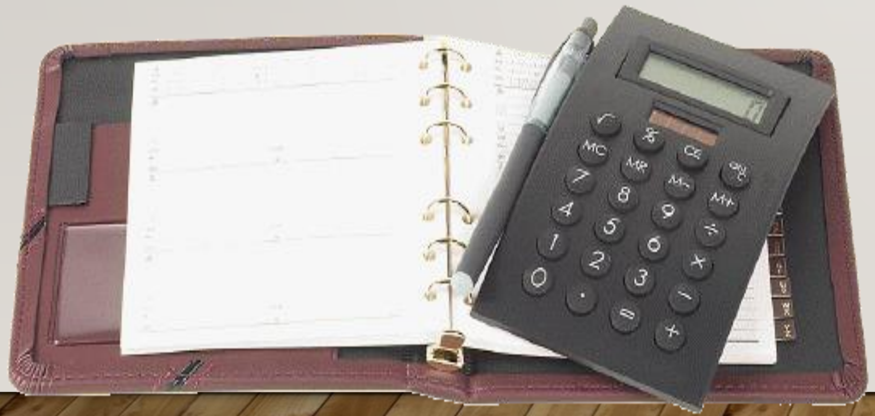
- How much money do I need?
- Where should I get that money?
- What type of arrangements do I need to make to obtain that capital?

FINANCIAL ANALYSIS TOOLS

- List of startup costs and use of proceeds
- Proforma financial statements
- Cash flow statements
- Breakeven analysis

STARTUP COSTS

- All costs incurred to get the business off the ground
- Determine the capital you need
- Determine what you'll do with the capital once you get it



PROFORMA

- Project the financial condition of the new venture
- Estimate profit and loss
- Show financial structure of the business
- Allow investors to conduct ratio analysis

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DEBT VS. EQUITY

- Debt—financial obligation to return capital provided plus a scheduled amount of interest
- Equity—a portion of ownership receive in an organization in return for money provided

EQUITY CAPITAL

INSIDE EQUITY

- Equity finance represents ownership stake in the new venture. Initial equity mostly come from the:
- Founder
- Top management team
- Friends
- Family/Relatives

ADVANTAGES

- Easy and quick source
- Less pressure
- Informal arrangements
- Less debt

DISADVANTAGES

- Risk of destroying personal relationships
- May encourage interference
- Force personal sacrifices

OUTSIDE EQUITY

This comes from investors who have no personal relationship with the venture beyond their investment and their concern for its profitability and protection.

- Different suppliers of investment capital are characterised along two primary dimensions:
- ➢ the amount of money they are prepared to offer;
- ➢ the level of risk they are prepared to take on.

OBTAINING RISK CAPITAL

- Three central issues to be considered
  - Does the venture need outside equity capital?
  - Do the founders want outside equity capital?
  - Who should invest?

PRESENTING INFORMATION TO POSSIBLE INVESTORS

- A concise presentation should include the following:
  - What is the market opportunity?
  - Why is it compelling?
  - How will/does the business make money?
  - Why is this the right team at the right time?
  - How does an investor exit the investment?

WHAT TO LOOK FOR IN INVESTORS

- Seek investors who:
  - Are considering new financing proposals and can provide the required level of capital
  - Are interested in companies at the particular stage of growth
  - Understand and have a preference for investments in the particular industry

- Seek investors who:
  - Can provide good business advice, moral support, and has contacts in the business and financial community
  - Are reputable, fair, and ethical and with whom the entrepreneur gets along
  - Have successful track records of advising and building smaller companies

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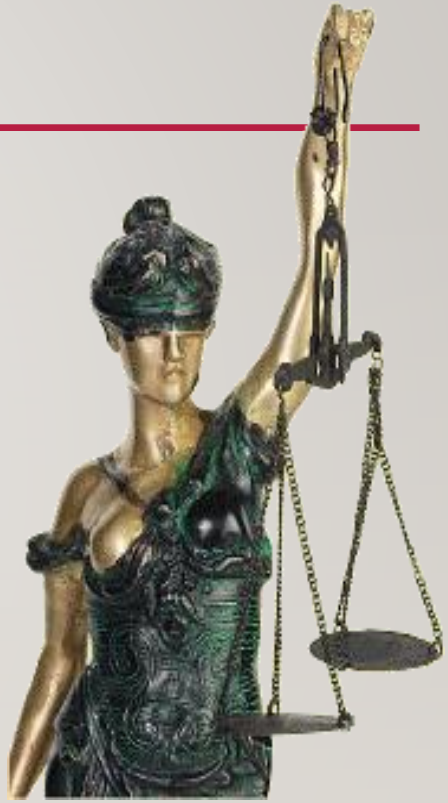
ANGEL INVESTORS

- Who are angel investors?
  - Most are self-made entrepreneur millionaires
  - Many are in their 40s and 50s
  - Most are well educated
  - They are sometimes reached through personal acquaintances

- Advantages
  - Relative accessibility
  - Size of investment pool
  - Individuals may be in a position to lend their positive reputations to the venture to attract additional funds
- Disadvantages
  - They sometimes lack the business expertise that would help the entrepreneur when advise in needed
  - Sometimes they may suffer from the inability to invest more money
  - Sometimes private investors tend to be over protective of their investment

VENTURE CAPITAL

- This is capital that comes from professionally managed pools of investor money. Instead of wealthy individuals making investments one at a time and on their own, they pull their funds with other like minded people and hire professionals to make the investment and related decisions.



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- Advantages
  - Often able to bring additional money on the table when needed
  - They also provide additional advice based on experience and important industry contacts for the firm
- Disadvantages
  - May lead to the dilution of ownership
  - Interference in company affairs
  - Loss of control

GOING PUBLIC

- Advantages of going public
  - To raise more capital with less dilution than occurs with private placements or venture capital
  - To improve the balance sheet
  - To reduce or eliminate debt (thereby enhancing the company’s net worth
  - To obtain cash for pursuing opportunities that would otherwise be unaffordable

  - To access other suppliers of capital and to increase bargaining power
  - To improve credibility with customers, vendors, key people, and prospects
  - To achieve liquidity for owners and investors
  - To create equity incentives for new and existing employees

- Disadvantages of going public
  - Requirements to conform to standard accounting and tax practices
  - Increased accountability
  - Lack of operating confidentiality
  - Demand from dividends from stakeholders
  - Lack of operating flexibility

DEBT FINANCING

CRITERIA FOR LOAN EVALUATION

- Character; type of person you are
- Capital; the amount of money you have personally invested in the business
- Capacity; your management ability
- Collateral; security you are providing or pledging
- Circumstances; nature of product, stage of competition etc.
- Coverage; insurance coverage that will protect the lender in the event of the death of the borrower.

SOURCES OF DEBT CAPITAL

- Trade credit
- Commercial banks
- Finance companies
- Factors
- Leasing companies

COMMERCIAL BANKS

- Common types of financing involving the use of a bank
  - overdrafts
  - Term loans
  - mortgages and equipment loans
  - Plant improvement loans
- Lease

- Advantages of debt financing
  - You maintain control and ownership of the business
  - Interest and other cost are tax deductible
  - Inflation results in repayments of cheaper amounts.
- Disadvantages
  - Procedure for accessing loans can be cumbersome and difficult
  - High interest rates
  - Risks that future profits will not cover repayment
  - Must share financial and other confidential information
  - Lender may impose certain restrictions on borrower.

SOURCES OF LONG TERM FINANCE

- **Shares**
  - This is because they are only paid back on winding up of the company
  - Shareholders are real owners of the company and get dividend when the company is earning profits

- Two types of shares may be issued by a company:
  - **Equity shares**
  - **Preference shares**

- **Debentures**
  - A company also raises long term finance through borrowing.
  - Debentures are usually secured and are said to have either fixed or floating charges

Links & Resources

CLICK HERE

1. The World's Top 400 Crowdfunding Platforms
2. Top 10 Crowdfunding Platforms for African Entrepreneurs & Businesses
3. Top 10 Global Crowdfunding Sites For Fundraising

Links & Resources

CLICK HERE

1. Global List of 200+ Seed Accelerators & Groups

2. Map of Accelerators, Incubators, Labs & Co-working Spaces in Africa

3. 15 Startup Accelerators Dedicated to Africa's Entrepreneurial Talent

4. Top Incubators and Accelerator for Startups & Entrepreneurs

Links & Resources

THE Coca-Cola FOUNDATION

BILL & MELINDA GATES foundation

SCHWAB FOUNDATION FOR SOCIAL ENTREPRENEURSHIP

FORD FOUNDATION

CAF Charities Aid Foundation

CLICK HERE

1. Comprehensive List of 100+ International and Foreign Grant Providers
2. International Grant Funding Foundations for Africa
3. Knowledge Base: International Grant Opportunities for non-US Organisations

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