TITLE
1. The basics of Start-Up Financing
ABSTRACT
This is an introduction about Start-Up Financing. The aim is to provide entrepreneurs the fundamentals about this topic which will be useful in implementing the next actions.
GENERAL DESCRIPTION OF THE SPECIFIC ACTION

A **startup company is a new business that is potentially fast growing** and aims to fill a hole in the marketplace by developing and offering a new and unique product, process, or service but is still overcoming problems.
Startup companies need to receive various types of funding in order to rapidly develop a business from their initial business model that they can grow and build up.

Financial management is an essential skill that small entrepreneurs must learn quickly when they start working on their own. Balancing incoming streams with short-term expenses and long-term investments is anything but easy, especially if this is not your primary field of expertise. It's no surprise that numerous start-ups hit a sudden roadblock that takes them by surprise and submarines their curve of growth, even if most of such incidents can be avoided with careful planning.

The primary objective is to provide an understanding of the concepts and institutions involved in Start-Up finance. The aim is to address key questions which challenge all entrepreneurs: how much money can and should be raised; when it should be raised and from whom; what is a reasonable valuation of the company; and how funding should be structured. During the course, challenges in a variety of industry settings and stages of venture development will be examined both from the entrepreneur's and from the investor's standpoints.

After the module the participants will have a broad understanding about:

- Concepts and terminology related to entrepreneurial financing
- Various financial sources available to different types of entrepreneurial businesses
- How to conduct basic analysing of financial statements and projections
- How to conduct a basic financial valuation of a start-up firm
- How terms and conditions between entrepreneurs and external investors may be structured
- Exit possibilities for start-up companies

This module will provide practical insights on several issues, including:

- Evaluations of business plans
- Financial analysis and evaluation of key measurements
- Sources of funding
- Valuation
- Structuring deals
- Exit options

Action Type
Simple actions that can be implemented immediately, but require an investment

Connected Actions
Actions 2 to 7
Time required to implement a solution and when possible associated cost
2 - 3 days
Positive and Negative Part of the Solution
Positive: A short, practical and efficient introduction about Start-Up Financing. It allows to understand the fundamental aspects and to acquire the related background. **Negative:** Considering the relatively short time (2 – 3 days); it is impossible to learn this topic in detail. Some elements need to be deepened.
Estimated Exploitation
ICT Competence
Basic
English Language Skills
Established to Advanced
Webshop Level
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Informative Text (Sources)
1. BONNET Christophe : Finance entrepreneuriale. Economica, 2012. 2. ROBYN Carl-Alexandre : Que vaut ma Start up. Edipro, 2013. 3. BOUKRIS (R.), FRITZ (N.) : Les Business Angels : guide des bonnes pratiques à l'usage des investisseurs et des entrepreneurs. Pearson, 2011. 4. DEHORTER Nicolas : Crowdfunding : suivez le guide ! Panorama et conseils pratiques. Colligence, 2012. 5. GALLOUÏN J.F. : Guide pratique de la levée de fonds. Eyrolles, 2007. 6. https://www.sses.se/course/finance-for-start-ups/ 7. https://www.youtube.com/watch?v=15Rzkc1mno8 8. https://www.youtube.com/watch?v=677ZtSMr4-4
Additional Resources
1. https://www.youtube.com/watch?v=eqDQlAf3-Qo 2. https://smallbusiness.findlaw.com/starting-a-business/start-up-financing.html 3. https://www.mbaskool.com/business-articles/entrepreneurship-and-startups/14090-basics-of-startup-funding.html 4. https://tech.co/startup-funding-mechanics-basics-2017-07 5. https://www.quora.com/What-finance-basics-should-a-startup-understand-and-where-are-the-best-resources-to-learn-them **6.** https://www.ipohub.org/overview-startup-financing/
Cross Border remark

TITLE
2. Financial needs of a Start-Up business
ABSTRACT
The aim of this action is to estimate the financial needs of the Start-up which can be divided into one-time start-up costs and recurring expenses.
GENERAL DESCRIPTION OF THE SPECIFIC ACTION
How to determine your new company's financial needs? One of the biggest challenges of starting a **new business** is making sure you'll have **enough money** to see you through the **challenging first months**. Without **adequate financial resources**, your business will have a hard time finding its footing. Entrepreneurs need to be realistic about how long it will take for revenues to catch up to costs. You may have to endure losses for one or two years—perhaps even longer—and you will need money to tide you over. To ensure you have **adequate funds**, it's important to **estimate your financial needs before starting a new business**. The first step is to figure out **your expenses**. These can be divided into **one-time start-up costs** and **recurring expenses**. Add up costs **One-time costs** may include such items as legal and professional costs for incorporating or registering your business; starting inventory; licence and permit fees; office supplies and equipment; long-term assets, such as machinery, a vehicle or real estate; consulting services; and website design. **Recurring expenses** will include such items as salaries, rent or lease payments, raw materials, marketing costs, office and plant overhead, financing costs, maintenance and professional fees. Once you've determined your initial and follow-on expenses, you will need to estimate how much money you will have at your disposal. **Calculate your financial resources** **Estimate how much starting capital** you will have and the amount of revenue you'll be able to generate each month during the start-up period. To calculate the latter, research your **potential market and industry averages** to come up with realistic numbers. Now, **plug your estimated financial resources and your estimated expenses into a set of financial projections for your business**. A quick examination of your projections will show if you'll have a financial shortfall.
Action Type
Simple actions that can be implemented immediately, but require an investment
Connected Actions
3) Sources of start-up financing
Time required to implement a solution and when possible associated cost
1 day

Positive and Negative Part of the Solution
Positive: From estimated financial resources, estimated expenses and a set of financial projections for the business, it is possible to get a quick examination of the projections. **Negative:** Unexpected costs/expenses.
Estimated Exploitation
ICT Competence
Basic to Intermediate
English Language Skills
Established
Webshop Level
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Informative Text (Sources)
1. https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/pages/determining-financial-needs-new-business.aspx
Additional Resources
Cross Border remark

TITLE
3. Sources of start-up financing
ABSTRACT
This action will show the different sources of financing: Personal investment, Love money, Venture capital, Angels, Business incubators, Government grants and subsidies, and Bank loans.
GENERAL DESCRIPTION OF THE SPECIFIC ACTION

It is important to have different sources of financing. This allow the start-up to better weather potential downturns, but it will also improve the chances of getting the appropriate financing to meet your specific needs.

Keep in mind that bankers don't see themselves as your sole source of funds. And showing that you've sought or used various financing alternatives demonstrates to lenders that you're a proactive entrepreneur.

Specific advantages and disadvantages of the different sources of financing: bank loan, an angel investor, a government grant or a business incubator, …

Which criteria they will use to evaluate the business.

Seven typical sources of financing for start-ups:

1. Personal investment
The first investor should be the contractor. This proves to investors and bankers that the contractor is ready to take risks.

2. Love money
This is money loaned by a family or friends. Investors and bankers consider this as "patient capital", which is money that will be repaid later as your business profits increase.

3. Venture capital
Venture capital is not necessarily for all entrepreneurs. Right from the start, you should be aware that venture capitalists are looking for technology-driven businesses and companies with high-growth potential in sectors such as information technology, communications and biotechnology.

4. Angels
Angels are generally wealthy individuals or retired company executives who invest directly in small firms owned by others. They are often leaders in their own field who not only contribute their experience and network of contacts but also their technical and/or management knowledge. Angels tend to finance the early stages of the business with investments in the order of $25,000 to $100,000. Institutional venture capitalists prefer larger investments, in the order of $1,000,000.

In exchange for risking their money, they reserve the right to supervise the company's management practices. In concrete terms, this often involves a seat on the board of directors and an assurance of transparency.

5. Business incubators

Business incubators (or "accelerators") generally focus on the high-tech sector by providing support for new businesses in various stages of development. However, there are also local economic development incubators, which are focused on areas such as job creation, revitalization and hosting and sharing services.

Commonly, incubators will invite future businesses and other fledgling companies to share their premises, as well as their administrative, logistical and technical resources. For example, an incubator might share the use of its laboratories so that a new business can develop and test its products more cheaply before beginning production.

6. Government grants and subsidies

Government agencies provide financing such as grants and subsidies that may be available to your business.

7. Bank loans

Bank loans are the most commonly used source of funding for small and medium-sized businesses.

In general, you should know bankers are looking for companies with a sound track record and that have excellent credit. A good idea is not enough; it has to be backed up with a solid business plan. Start-up loans will also typically require a personal guarantee from the entrepreneurs.

Action Type
Actions that have prerequisites and require an investment
Connected Actions
1) Financial needs of a Start-Up business
Time required to implement a solution and when possible associated cost
5 – 7 days
Positive and Negative Part of the Solution
<u>Positive:</u> They are several options for start-up financing. **<u>Negative:</u>** Time-consuming.
Estimated Exploitation
ICT Competence
Basic to Intermediate
English Language Skills
Established
Webshop Level
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Informative Text (Sources)

1. BOUKRIS (R.), FRITZ (N.) : Les Business Angels : guide des bonnes pratiques à l'usage des investisseurs et des entrepreneurs. Pearson, 2011.
2. DEHORTER Nicolas : Crowdfunding : suivez le guide ! Panorama et conseils pratiques. Colligence, 2012.

3. GALLOUÏN J.F. : Guide pratique de la levée de fonds. Eyrolles, 2007. 4. https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/pages/start-up-financing-sources.aspx
Additional Resources
1. 10 Ways to Find Investors For Your Startup https://www.forbes.com/sites/mnewlands/2015/07/06/10-way-to-find-investors-for-your-startup/#260f3b432a13
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TITLE
4. Business plan for financial forecast
ABSTRACT
As part of your plan you will need to provide a set of financial projections which translate what you have said about your business into numbers.
GENERAL DESCRIPTION OF THE SPECIFIC ACTION
Write a business plan: step-by-step Financial forecasts for your business plan You will need to look carefully at: • how much capital you need if you are seeking external funding • the security you can offer lenders • how you plan to repay any borrowings • sources of revenue and income • You may also want to include your personal finances as part of the plan at this stage. **Financial planning** Your forecasts should run for the next three to five years and their level of sophistication should reflect the sophistication of your business. However, the first 12 months' forecasts should have the most detail associated with them. Include the assumptions behind your projection with your figures, both in terms of costs and revenues so investors can clearly see the thinking behind the numbers. **What your forecasts should include** Sales forecast - the amount of money you expect to raise from sales - see forecast and plan your sales. **Cashflow statements** - your cash balance and monthly cashflow patterns for at least the first 12 to 18 months - see cashflow management. **Profit and loss forecast** - a statement of the trading position of the business: the level of profit you expect to make, given your projected sales and the costs of providing goods and services and your overheads. For financial forecast examples, download a spreadsheet containing cashflow forecast, profit and loss forecast and sales forecast templates.
Action Type
Actions that have prerequisites and require an investment
Connected Actions
3) Sources of start-up financing
Time required to implement a solution and when possible associated cost
2 days

Positive and Negative Part of the Solution
Positive: provide a set of financial projections.
Estimated Exploitation
ICT Competence
Intermediate
English Language Skills
Established to Advanced
Webshop Level
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Informative Text (Sources)
1. https://www.nibusinessinfo.co.uk/content/financial-forecasts-your-business-plan 2. Business Planning and Financial Forecasting : A Start-up Guide http://public-files.prbb.org/intervals/docs/16760815-Business-Planning.pdf
Additional Resources
1. https://www.thebalancesmb.com/writing-a-business-plan-financial-projections-1200842
Cross Border remark

TITLE
5. Investor-startup relationship
ABSTRACT
The relationship between a start-up and an investor is a long-term commitment. Much like a marriage, it depends on trust, honesty and transparency. If any of these qualities is lacking between the two, there's little chance that any long-term value can be created.
GENERAL DESCRIPTION OF THE SPECIFIC ACTION

It would not be an exaggeration to say that the initial pitch meeting feels much a like a first date when each side looks for an 'instant connect'. The due diligence period that follows is quite like the courtship phase and is the most crucial phase that decides the fate of the relationship. It is often this phase that determines, whether the start-up-investor relationship culminates into a marriage or breakup.

To ensure that the relationship between a start-up and an investor is a fruitful and fulfilling one, there are a slew of things that need to be taken into consideration.

Given below are the **top deal-breakers** between the two which prevent the relationship from culminating into a happy and successful one:

The 'chemistry' between the entrepreneur and investor
'Chemistry' between two individuals is a basic ingredient in any successful relationship, be it personal or professional. It assumes even greater significance in a startup-investor relationship because the two sides constantly need to work alongside each other through the start-up's journey. Any discomfort between the entrepreneur and investor is an obvious indication that things may not work out in the long run, and it, therefore, makes sense to part ways before things take a turn for the worse.

No surprises please
Once the term sheet is signed and the due diligence process begins, the investor will spare no efforts to validate all your claims about the product, scalability and the marketplace. It is therefore best to be completely transparent with the investors and give them the real picture of the business – no undisclosed or concealed facts! The simple rule here is – 'NO SURPRISES', since basic trust is what the relationship is built on.

If the due diligence process reveals any unfavourable surprises, consider the deal gone, because trust once broken cannot be restored.

Violation of Non-Disclosure Agreement (NDA)
Usually, an NDA is signed between the investor and the start-up to ensure that neither party discloses any 'inside information' or confidential information pertaining to the deal to a third party. If such a violation occurs the aggrieved party can pull out from the deal, because, both, ethically and legally, the sanctity of the relationship is in jeopardy.

Market conditions
Many a times, a deal can break if the investor is approached by another start-up in the same category and if they smell a better ROI from them with lesser effort and money.

It can also happen if the market dynamics of the domain in which the start-up operates changes drastically. For instance, a change in government policy could change the dynamics of the marketplace. Another situation could be if a competing company lands an even bigger deal or comes up with a disruptive technology/innovation that alters the prevailing market conditions.

Conclusion

One should understand that, inherently, the investor-startup relationship is different. And it should be kept sacrosanct. An investor's primary objective is to invest, grow his/her money and get good returns. Therefore, no matter what, an investor will always be on the lookout for a better ROI and an exit strategy. For an entrepreneur, it is much more about his/her passion and dreams. However, both points of view need to coexist to make the relationship successful.

Getting an investment does not come easy since the expectations are high on both sides. Nobody wants to feel short-changed at the end of the day. What is important is to understand that just like any other deal, things not materializing, or not fast enough, is just a part of the game. It is, therefore, important to part ways on an amicable note rather than hold grudges against each other and feel bitter about that experience. After all, it is a small ecosystem and you are likely to keep bumping into each other, whether you like it or not.

Also, don’t let it dampen your spirit because if your idea is truly ‘brilliant’, it’ll not be long before you find another investor who’s willing to pump in money into your venture.

Action Type
Simple actions that can be implemented immediately, but require an investment
Connected Actions
3) Sources of start-up financing
Time required to implement a solution and when possible associated cost
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Positive and Negative Part of the Solution
Positive: know main deal-breakers which prevent the relationship from culminating into a happy and successful one. **Negative:** subjectivity.
Estimated Exploitation
ICT Competence
Basic
English Language Skills
Established to Advanced
Webshop Level
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Informative Text (Sources)
1. Vikram Upadhyaya https://yourstory.com/2015/06/investor-startup-relationship/

2. 5 Rules for Treating Your Investors Right https://www.startupgrind.com/blog/5-rules-for-treating-your-investors-right/ 3. Money Should Never Drive a Startup's Relationship With Investors http://fortune.com/2016/06/30/advice-on-investor-relationships/ 4. How the complex relationship between a startup founder & an investor is similar to a marriage https://economictimes.indiatimes.com/small-biz/startups/how-the-complex-relationship-between-a-startup-founder-an-investor-is-similar-to-a-marriage/articleshow/46646853.cms
Additional Resources
1. Investor Relations for Startups https://medium.com/@zelkovavc/investor-relations-for-startups-b6f66964ab6f 2. How to meet and engage an investor for your startup https://www.marsdd.com/mars-library/how-to-meet-and-engage-an-investor-for-your-startup/
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TITLE
6. Startup financial risks
ABSTRACT
When you look at start-up statistics it is hard to understand why most start-ups fail during their first 2 years. The reasons why this happens is related to many different things which can go wrong.
GENERAL DESCRIPTION OF THE SPECIFIC ACTION

It is possible to learn from other's mistakes and make your business operations more resistant to financial shocks.

Here are some of the most common risks that small companies should steer clear of at all times:

Overspending on advertising
It is important to let everyone know that your company is in business and it's very tempting to open up the wallet to ramp up your media presence from the first day. However, if the ambitious campaign fails to bring in enough new customers, it could create a serious hole in your budget. It is probably a better idea to start smaller and only increase the volume of the campaign once it produces some palpable results and positively impacts your monthly income.

Making a wrong investment
Start-ups typically have limited resources on their disposal and just a single mistake can seriously hamper their further growth. Education is paramount when making costly decisions – according to Ted Thomas tax liens, a majority of small investors are unaware of all the opportunities and risks inherent in the financial sector. The solution could be to attend a few high-end courses about the relevant markets or hire a specialist for this type of tasks, while also staying away from risky propositions in the early period.

Hiring too many people
Good managers are always looking to make their teams stronger, but this must be done with full respect to the realistic financial might of the company. In most cases, the same amount of work can be completed with a smaller team, albeit with an additional effort. However, these early pains can be a great training ground that helps you identify skilled and dedicated workers that deserve to get paid. That's a much safer strategy than paying many people and then testing who can do the job.

Enduring an accident
Many companies face challenges when they lose essential equipment to random forces such as a tornado or a mass collision on the highway. While such occurrences can't be eliminated, there are measures that can be installed to reduce the chance of such a catastrophic outcome. Adjusting your delivery schedule to improve safety in traffic or conducting regular fire drills in the manufacturing facility are some of the steps in the right direction that can protect your essential resources from unexpected damage.

Action Type
Actions that have prerequisites and require an investment

Connected Actions
3) Sources of start-up financing 5) Investor-startup relationship
Time required to implement a solution and when possible associated cost
1 – 2 days
Positive and Negative Part of the Solution
Positive: It is important to be aware about these different risks. **Negative:** unexpected situations.
Estimated Exploitation
ICT Competence
Basic
English Language Skills
Established
Webshop Level
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Informative Text (Sources)
1. https://e27.co/4-major-financial-risks-can-slow-startup-20170208/ 2. https://money.usnews.com/money/blogs/my-money/articles/2016-02-19/5-financial-risks-startups-have-to-take 3. http://www.dezzain.com/business/financial-risks-startup-owners-need-to-be-aware-of/
Additional Resources
1. https://www.caycon.com/what-kills-startups 2. https://troymedia.com/2018/03/22/5-financial-risks-starting-business/ 3. https://medium.com/work-bench/evaluating-startup-financial-risk-a-framework-for-fortune-500s-5845c7855eb4
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TITLE

7. Start-up valuation methods

ABSTRACT

Start-up valuation methods are the ways in which a start-up business owner can work out the value of their company during the pre-revenue stage of their lifespan.

GENERAL DESCRIPTION OF THE SPECIFIC ACTION

Start-up valuation methods are the ways in which a start-up business owner can work out the value of their company. These methods are important because often start-ups are at a pre-revenue stage in their life-span so there aren't any hard facts or revenue figures to base the value of the business on.

Because of this guesswork, an estimation must be used, which is why several start-up valuation method frameworks have been invented to help a start-up business more accurately guess their valuation.

Business owners want the value to be as high as possible, whilst investors want the value to be low enough that they'll see a big return on their investment.

Difference Between Start-up Valuation and Mature Business Valuation
Start-up businesses will usually have little or no revenue or profits and are still in a stage of instability. It is likely their product, procedure, or service has reached the market yet. Because of this it can be difficult to place a valuation on the company.

With mature publicly listed businesses that receive steady revenue and earnings it is a lot easier. All you must do is value the company as a multiple of their earnings before interest, taxes, depreciation, and amortization (EBITDA).

EBITDA

EBITDA is best shown with the following formula - EBITDA = Net Profit + Interest +Taxes + Depreciation + Amortization

For example, if a company earns $1,000,000 in revenue and production costs of $400,000 with $200,000 in operating expenses, as well as a depreciation and amortization expense of $100,000 that leaves an operating profit of $300,000. The interest expense is $50,000 leading to earnings before taxes of $250,000. With a 20 percent tax-rate the net income becomes $200,000. With EBITDA you would add the $200,000 net profit to the tax and interest to get the operating income of $300,000 and add on the depreciation and amortization expense of $100,000 giving you a company valuation of $400,000.

With startup valuations there is no substantial information to base a valuation on other than assumptions and educated guesses.

What determines a start-up value?
Positive Factors

Traction – One of the biggest factors of proving a valuation is to show that your company has customers. If you have 100,000 customers, you have a good shot at raising $1 million.

Reputation – If a start-up owner has a track record of coming up with good ideas or running successful businesses, or the product, procedure or service already has a good reputation a start-up is more likely to get a higher valuation, even if there isn't traction.
Prototype – Any prototype that a business may have that displays the product/service will help.
Revenues – More important to business to business start-ups rather than consumer start-ups but revenue streams like charging users will make a company easier to value.
Supply and Demand – If there are more business owners seeking money than investors willing to invest, this could affect your business valuation. This also includes a business owner's desperation to secure an investment, and an investors willingness to pay a premium.
Distribution Channel – Where a start-up sells its product is important, if you get a good distribution channel the value of a start-up will be more likely to be higher.
Hotness of Industry – If an industry is booming or popular (like mobile gaming) investors are more likely to pay a premium, meaning your start-up will be worth more if it falls in the right industry.

Negative Factors

Poor Industry – If a start-up is in an industry that has recently shown poor performance, or may be dying off.
Low Margins – Some start-ups will be in industries, or sell products that have low-margins, making an investment less desirable.
Competition – Some industry sectors have a lot of competition, or other business that have cornered the market. A start-up that might be competing in this situation is likely to put off investors.
Management Not Up To Scratch – If the management team of a start-up has no track record or reputation, or key positions are missing.
Product – If the product doesn't work or has no traction and doesn't seem to be popular or a good idea.
Desperation – If the business owner is seeking investment because they are close to running out of cash.

Action Type
Actions that have prerequisites and require an investment
Connected Actions
4) Business plan for financial forecast
Time required to implement a solution and when possible associated cost
2 days
Positive and Negative Part of the Solution
<u>Positive:</u> Easy to implement.
Estimated Exploitation
ICT Competence
Basic
English Language Skills
Established

Webshop Level
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Informative Text (Sources)
1. ROBYN Carl-Alexandre : Que vaut ma Start up. Edipro, 2013. 2. https://www.upcounsel.com/startup-valuation-methods 3. https://medium.com/parisoma-blog/valuation-for-startups-9-methods-explained-53771c86590e
Additional Resources
1. https://www.techinasia.com/talk/9-method-startup-valuation 2. https://seedcamp.com/resources/how-does-an-early-stage-investor-value-a-startup/ 3. https://www.forbes.com/sites/mariannehudson/2015/03/06/the-art-of-valuing-a-startup/#575bf7c21d73 4. https://seraf-investor.com/compass/article/approximations-assumptions-and-aspirations-methods-valuing-startups-part-i 5. https://www.coursera.org/specializations/startup-valuation
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