

Entrepreneur University: Show Me The Money

 **Wilson Sonsini Goodrich & Rosati**
PROFESSIONAL CORPORATION

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Funding the Plan

- Raising or borrowing money is a corporate strategy
 - Accelerate growth
 - Finance seasonal lows
 - Invest in opportunities
- Wrong financing strategy can be disastrous
 - Must constantly monitor and revise plans

Funding the Plan

- Two ways to finance a startup business
 - Equity
 - Debt

Equity

- Permanent form of financing
- Selling shares of company stock

- Two types:
 - Preferred stock
 - Common stock

Preferred Stock

- A “higher ranking” stock than common stock
- Terms negotiated between the corporation and the investor
- Voting rights are negotiable
- Priority over common stock in the payment of dividends
- Convertibility feature into common stock
- In bankruptcy, preferred stockholders paid after debt holders and before common stockholders

Common Stock

- Companies issue common stock to founders, employees, occasionally “friends and family”
- Voting shares
- Dividends
- Capital appreciation
- Companies issue common stock in an IPO
 - Raise capital in public market
 - Create liquidity for stock
 - Create dilution for current owners
 - ▶ Owners may lose control of company
- In bankruptcy, lower priority than preferred, bonds and creditors

Debt

- Short term, working capital loans
 - Cover current cash needs
 - ▶ Finance growth
 - ▶ Cover seasonal cash flow needs
 - ▶ Cover major customer orders
- Long-term financing
 - Major capital needs
 - Real estate

Short Term, Working Capital Loans

- Types of short-term loans
 - Credit cards
 - Line of credit
 - Revolving credit
 - ▶ Accounts receivable financing
 - ▶ Inventory financing
 - Factoring
- Understand costs of borrowing

Long-Term Debt

- Types of long-term loans
 - Bank term loans
 - Bonds
- Loans can be senior debt
 - Debt holder has priority over others
- Loans can be subordinated debt
 - Debt holder ranks after others in case of liquidation
 - Higher risk position equals higher interest rate

Questions?