



FUNDAMENTAL OF TECHNOPRENEURSHIP (UCSD2762)

Chapter 8 Financing and Funding

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Chapter Objectives

1. Explain why most entrepreneurial ventures need to raise money during their early life.
2. Identify the three sources of personal financing available to entrepreneurs.
3. Provide examples of how entrepreneurs bootstrap to raise money or cut costs.
4. Identify the three steps involved in properly preparing to raise debt or equity financing.
5. Discuss the difference between equity funding and debt financing.

Chapter Objectives

6. Explain the role of an elevator speech in attracting financing for an entrepreneurial venture.
7. Describe the difference between a business angel and a venture capitalist.
8. Explain why an initial public offering (IPO) is an important milestone in an entrepreneurial venture.
9. Discuss the SBA Guaranteed Loan Program.
10. Explain the advantages of leasing for an entrepreneurial venture.



The Importance of Getting Financing or Funding

- Few people deal with the process of raising investment capital until they need to raise capital for their own firm.
 - As a result, many entrepreneurs go about the task of raising capital haphazardly because they lack experience in this area.

Why Most New Ventures Need Financing or Funding

Cash Flow Challenges

Inventory must be purchased, employees must be trained and paid, and advertising must be paid for before cash is generated from sales.

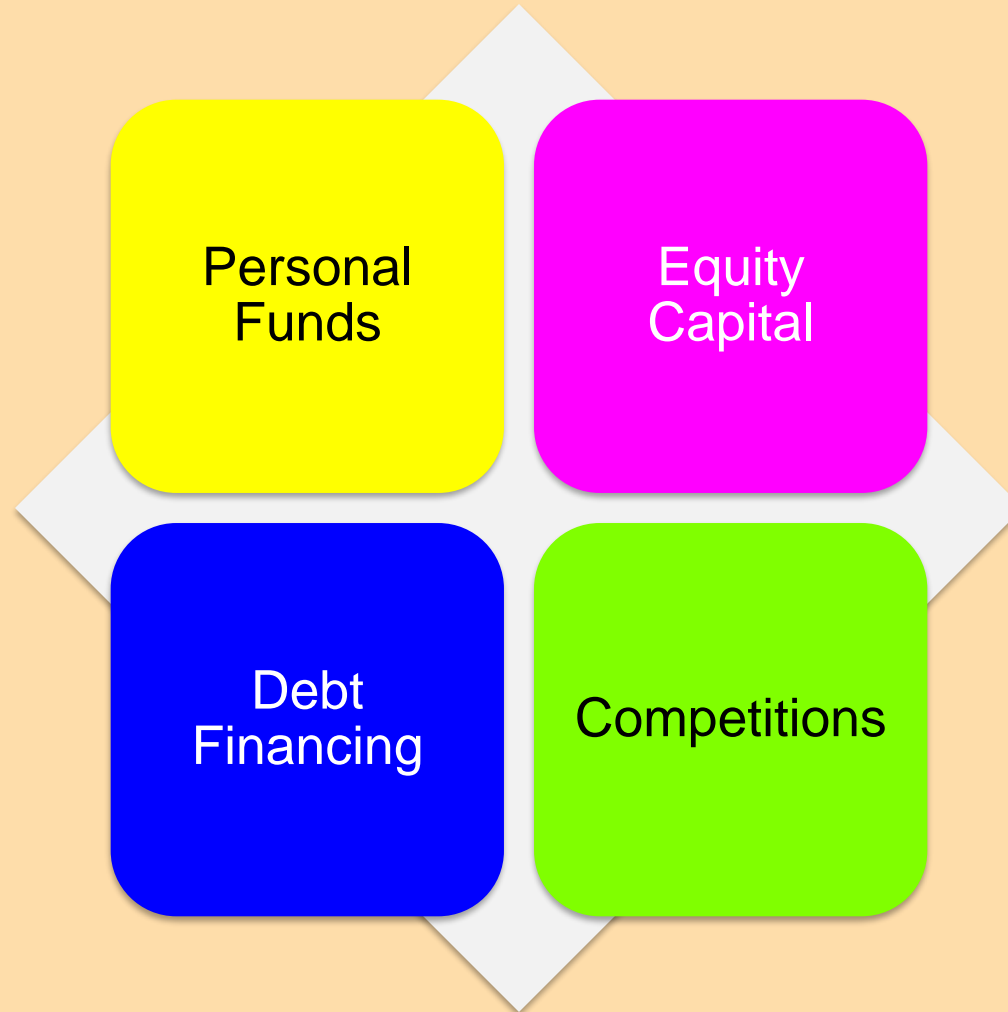
Capital Investments

The cost of buying real estate, building facilities, and purchasing equipment typically exceeds a firm's ability to provide funds for these needs on its own.

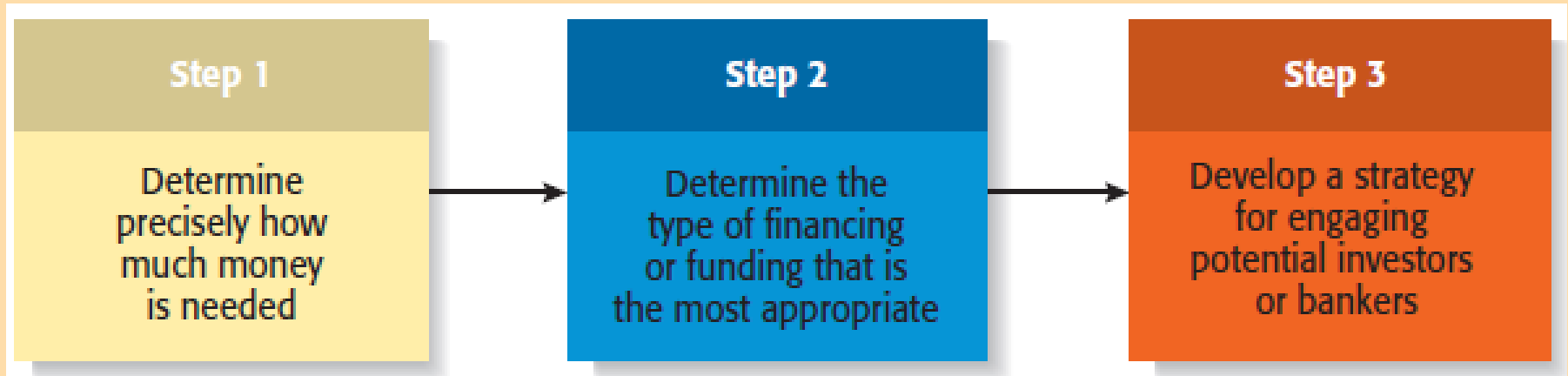
Lengthy Product Development Cycles

Some products are under development for years before they generate earnings. The up-front costs often exceed a firm's ability to fund these activities on its own.

Alternatives for Raising Money for a New Venture



Steps to Raise Financing



Sources of Personal Financing

- Personal Funds
 - The vast majority of founders contribute personal funds, along with sweat equity, to their ventures.
 - Sweat equity represents the value of the time and effort that a founder puts into a new venture.
- Friends and Family
 - Friends and family are the second source of funds for many new ventures.

Sources of Personal Financing

- **Bootstrapping**
 - Bootstrapping is finding ways to avoid the need for external financing or funding through creativity, ingenuity, thriftiness, cost-cutting, or any means necessary.
 - Many entrepreneurs bootstrap out of necessity.

Bootstrapping Methods

Buying used instead of new equipment

Coordinate purchases with other businesses.

Leasing equipment instead of buying.

Obtaining payments in advance from customers

Minimizing personal expenses

Avoiding unnecessary Expenses

Buying items cheaply but prudently via options such as eBay

Sharing office space or employees with other Businesses

Hiring interns

Types of Financing

Equity Financing

- Exchanging partial ownership in a firm, usually in the form of stock, for funding

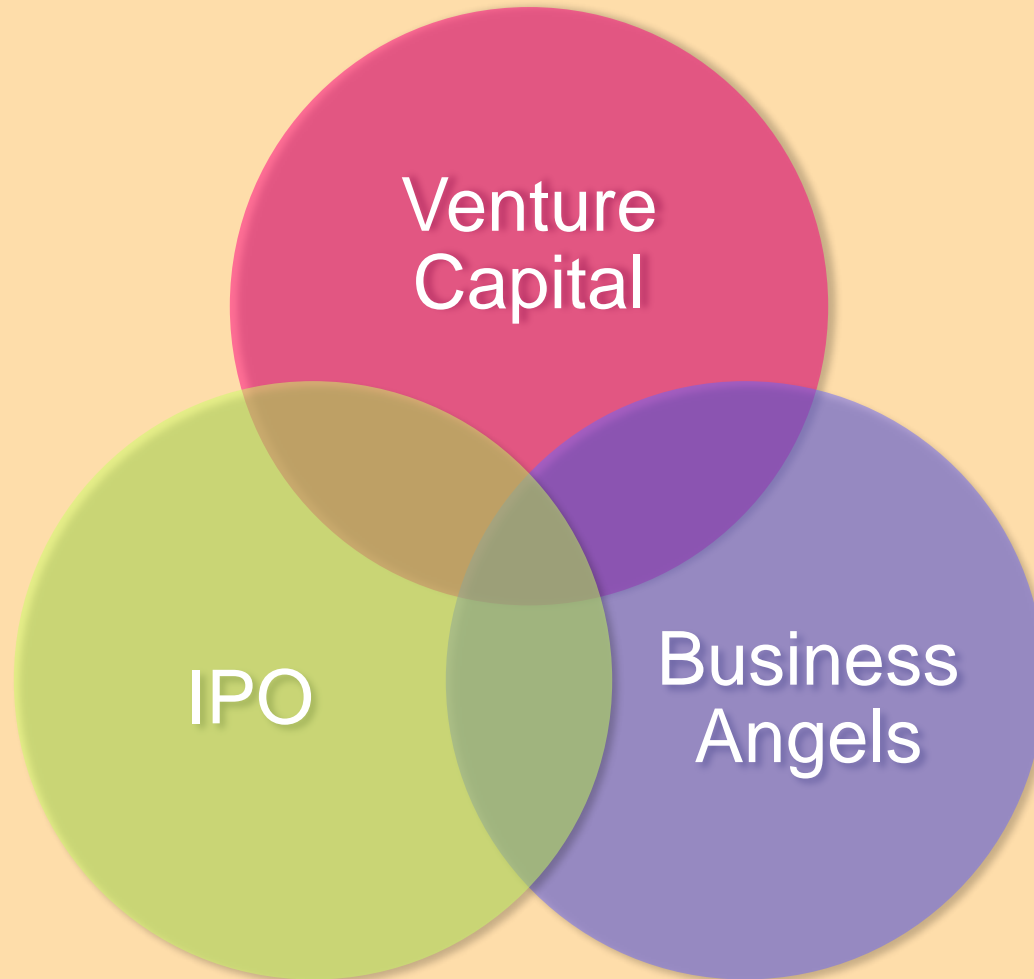
Debt Financing

- Getting loans

Matching a New Venture's Characteristics with the Appropriate Form of Financing or Funding

Characteristics of the Venture	Appropriate Source of Financing or Funding
<p>The business has high risk with an uncertain return:</p> <ul style="list-style-type: none"> Weak cash flow High leverage Low-to-moderate growth Unproven management 	Personal funds, friends, family, and other forms of bootstrapping
<p>The business has low risk with a more predictable return:</p> <ul style="list-style-type: none"> Strong cash flow Low leverage Audited financials Good management Healthy balance sheet 	Debt financing
<p>The business offers a high return:</p> <ul style="list-style-type: none"> Unique business idea High growth Niche market Proven management 	Equity

Sources of Equity Funding



Business Angels

- Are individuals who invest their personal capital directly in start-ups.
- The prototypical business angel is about 50 years old, has high income and wealth, is well educated, has succeeded as an entrepreneur, and is interested in the startup process.
- The number of angel investors in the U.S. has increased dramatically over the past decade.

Business Angels

- Business angels are valuable because of their willingness to make relatively small investments.
 - These investors generally invest between \$10,000 and \$500,000 in a single company.
 - Are looking for companies that have the potential to grow between 30% to 40% per year.
- Business angels are difficult to find.

Venture Capitals

- Is money that is invested by VC firms in start-ups and small businesses with exceptional growth potential.
- There are about 650 venture-capital firms in the U.S. that provide funding to about 2,600 firms per year.
 - VC firms are limited partnerships of money managers who raise money in “funds” to invest in start-ups and growing firms.
 - The funds (pool of money) are raised from wealthy individuals, pension plans, university endowments, foreign investors, and similar sources
 - A typical fund is \$75m to \$200m and invests in 20 to 30 companies over a three to five-year period.

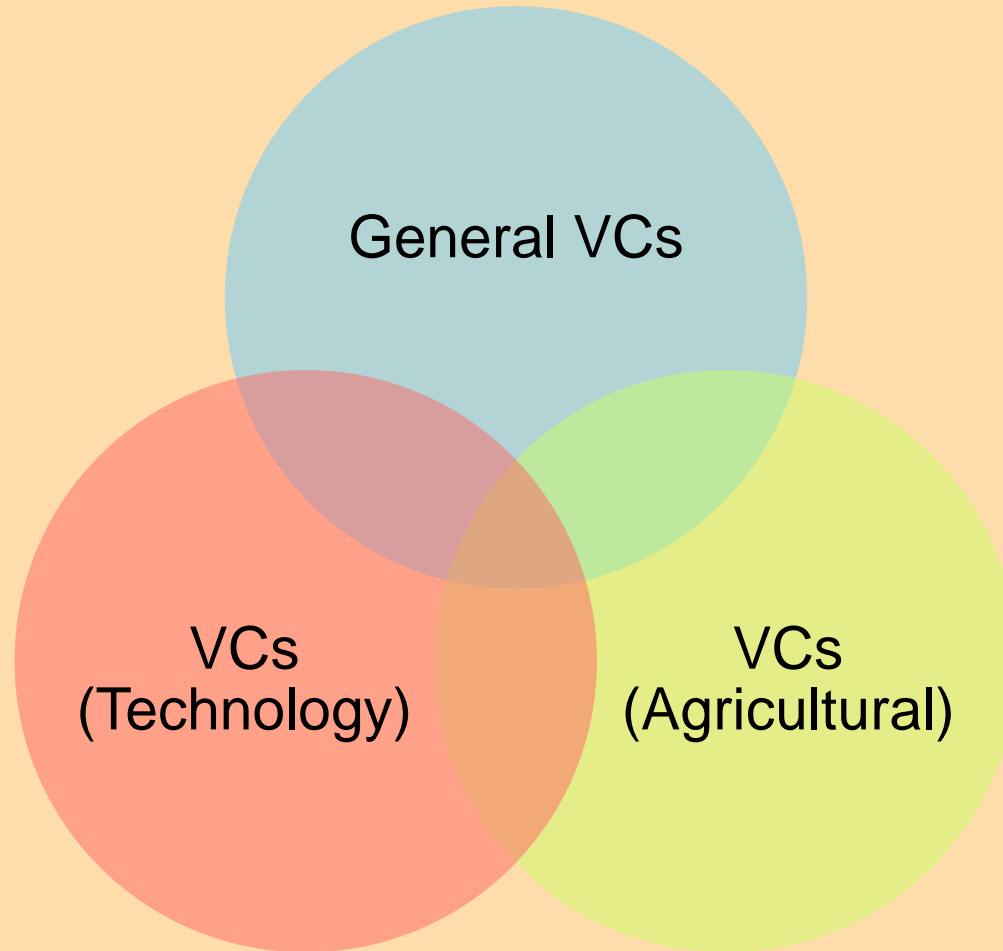
Venture Capitals

- Venture capital firms fund very few entrepreneurial firms in comparison to business angels.
 - Many entrepreneurs get discouraged when they are repeatedly rejected for venture capital funding, even though they may have an excellent business plan.
 - Venture capitalists are looking for the “home run” and so reject the majority of the proposals they consider.
 - Still, for the firms that qualify, venture capital is a viable alternative for equity funding.

Venture Capitals

- An important part of obtaining VC funding is going through the due diligence process:
 - Venture capitalists invest money in start-ups in “stages,” meaning that not all the money that is invested is disbursed at the same time.
 - Some venture capitalists also specialize in certain “stages” of funding.

Venture Capital in Malaysia



Venture Capital (General)

- **Objective:** To nurture and develop the technology sector and the venture capital market in Malaysia by providing venture capital financing
- **Investment Limit:** RM50,000 to RM40m
- **Priority sectors**
 - Telecommunication and networking
 - Information technology
 - Internet
 - Electronics
 - Semi-conductors

Venture Capital (General)

- **Malaysian Venture Capital (MAVCAP) Management Berhad**

Level 5, Menara Bank Pembangunan

Bandar Wawasan

No. 1016, Jalan Sultan Ismail

50250 Kuala Lumpur

Tel : 03 - 2050 3000

Fax : 03 - 2698 3800

Website : www.mavcap.com.my

VC (Agriculture)

- **Objective:** To provide venture capital financing and strategic business development to joint venture companies in agriculture sector.
- **Maximum Investment :** RM15 million or up to 10% of the total Committed Capital of the Fund Company
- **Eligibility criteria** – Malaysian incorporated business, with operations in Malaysia and/or overseas that has:
 - Strong operating track record
 - Solid and feasible business plan
 - Strong demand for its products
 - Strong management team

VC (Agriculture)

- **Eligible sector / Types of financing**
 - Fisheries
 - Livestock farming
 - Agro-biotechnology & Food technology
 - Industrial and Horticulture crops farming

VC (Technology)

- **Objective:** To provide venture capital financing and strategic business development to joint venture companies in the technology sector.
- **Investment Limit:** RM5m - 15m or specified by the participating financial institutions
- **Eligibility criteria** – Malaysian inc business that has:
 - Unique technology and selling proposition
 - Large market opportunity
 - Sustainable business and financial performance
- **Eligible sector / Types of financing**
 - Information & Communications Technology
 - Advanced Manufacturing
 - Life Sciences

VC (Technology)

Commerce Asset Ventures Sdn Bhd

No. 6, Commerce House
22-24, Jalan Sri Semantan Satu
Damansara Heights
50490 Kuala Lumpur
Malaysia
Tel : +603 2732 5577
Fax : +603 2732 1343
Website: www.commerce-ventures.com.my

Mayban Ventures Sdn Bhd

41st Floor, Menara Maybank
100, Jalan Tun Perak
50050 Kuala Lumpur
Tel : +603 2032 2188
Fax : +603 2031 2188
Website: <http://www.mayban-ventures.com.my>

Initial Public Offering (IPO)

- An IPO is a company's first sale of stock to the public. When a company goes public, its stock is traded on one of the major stock exchanges.
- Most entrepreneurial firms that go public trade on the MESDAQ, which is weighted heavily toward technology, biotech, and small-company stocks.
- An IPO is an important milestone for a firm. Typically, a firm is not able to go public until it has demonstrated that it is viable and has a bright future.

Why Firms to Go Public?

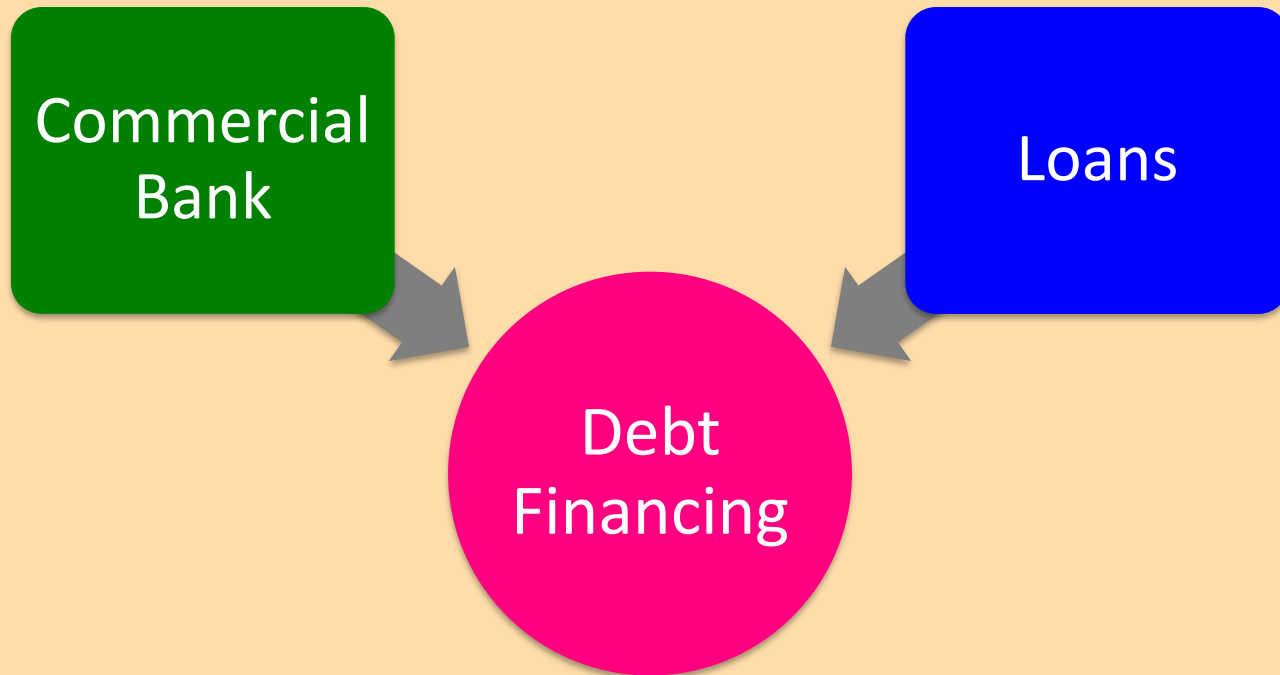
Is a way to raise equity capital to fund current and future operations.

Raises a firm's public profile, making it easier to attract high-quality customers and business partners.

Is a liquidity event that provides a means for a company's investors to recoup their investments.

Creates a form of currency that can be used to grow the company via acquisitions.

Sources of Debt Financing



Commercial Banks

- Historically, commercial banks have not been viewed as a practical sources of financing for start-up firms.
- This sentiment is not a knock against banks; it is just that banks are risk adverse, and financing start-ups is a risky business.
 - Banks are interested in firms that have a strong cash flow, low leverage, audited financials, good management, and a healthy balance sheet.

SBA Guaranteed Loans

- New Entrepreneurs Fund 2
Bank Negara Malaysia
- PROSPER Siswazah Entrepreneurial Scheme
Perbadanan Usahawan Nasional Berhad (PUNB)
- Soft Loan for ICT Adoption
Malaysian Industrial Development Finance Berhad (MIDF)
- Youth Business Scheme
Bank Kerjasama Rakyat Malaysia Berhad
- Graduate Entrepreneurs Fund
SME Bank Berhad

a Grant Programs

- Private Grants
 - There are a limited number of grants programs available.
 - Getting grants takes a little detective work.
 - Granting agencies are low key, and must be sought out.
- Other Government Grants
 - The federal government has grant programs beyond the private programs
 - The full spectrum of grants available is listed at <http://www.smeinfo.com.my/>



Investment Program

- Enables budding innovators and aspiring innovative entrepreneurs to make the jump from just having an innovative technology idea to becoming a successful start-up.
- CIP' s ultimate goal is to provide entrepreneurial support to:
 - Generate new technology ideas and innovations (individuals, research institutes and IHLs)
 - Create employment through technology venture development and commercialization
 - Act as a catalyst for new areas of economic growth
 - Address the funding gap and industry expectations between pre-seed, seed funding and later stages of capital funding
 - Create a critical mass of entrepreneurs and technopreneurs
 - Build a foundation for technopreneurs to spin off their ventures to commercialization

- Cradle **University Cradle Investment Programme** (U-CIP)
- Helps researchers and inventors from academic institutions develop their technology-oriented ideas and R&D efforts into real commercial products, ready for the marketplace.
- Funds: Max of RM50k
- Eligible areas:
 - Development of prototype;
 - Proofs of concept;
 - Business plans;
 - Purchase of market feasibility research;
 - IP (Intellectual Property) search and registration;
 - Surveys on concrete statistical data; and
 - Product sampling expenses

- U-CIP Catalyst Eligibility
 - Malaysians aged 18 years old and older and permanently residing in Malaysia.
 - Applicants must either be employed and/or studying at Research Institutes or IHLs in Malaysia.
 - Minimum of two (2) applicants and maximum of five (5) applicants per application.
- Not a VC fund – your ideas will be evaluated purely on how good and strong they are from the commercial and technological perspectives; NOT be assessed according the VC risk vs. reward profile or criteria.
- Application must be submitted online at www.cradle.com.my

Other Grant Programs

- Malaysia External Trade Development Corporation (MATRADE)
- Malaysian Biotechnology Corporation Bhd (MBC)
- Malaysian Technology Development Corporation (MTDC)
- Malaysian Institute Of Microelectronic Systems (MIMOS) Berhad
- Ministry of Science, Technology and Innovation (MOSTI)
- Multimedia Development Corporation (MDeC)

Competitions

- Valuable source of funding during the early stage
- Field to test your ideas and to improve the ideas based on expert advice and fellow entrepreneur observations

Competitions

- MSC IHL Technopreneurs BPC & BIC
- 1Malaysia Young Entrepreneurs Challenge
- 1MIT
- L' Oreal Entrepreneurs Challenge