Funding & Finance for Big Bang!

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Session Objectives

• Basic understanding of Funding and Finance
• Basic understanding of valuation and how you can influence it
• Business-level next steps to get to a plan to:
  • Generate revenue
  • Generate expense
  • Generate profit
  • Seek investment
Finance: An Introduction

Value Creation: Value Capture:

Start-Up Financing

- Revenue - Expense
- Revenue - Expense
- Revenue - Expense
- Revenue - Expense
The J-Curve

Capital required to reach "Break Even"

Value: An exercise
Value: The PV Formula

\[ PV = \frac{C_n}{(1 + r)^n} \]

- PV = Present value
- \( C_n \) = Cash flow in period n
- r = Discount rate

Brainstorm: Value

- Who will pay you for your product/service?
  - Customer definition.
- Why will they pay you for your product/service?
  - Value proposition
The Story: Generating Revenue

How will you get that money into your business?

Revenue Models

- **Unit Sales**: Sell a product or service to customers (wholesale, retail, or direct).
- **Advertising Fees**: Sell opportunities to distribute messages (viewers, readers, listeners, or others).
- **Franchise Fees**: Sell and support a replicable business for others to invest in, grow, and manage.
- **Utility Fees**: Sell goods and services on a per-use basis.
- **Subscription Fees**: Charge a fixed price for providing access to your goods or services.
- **Transaction Fees**: Charge a fee for referring, enabling or executing a transaction.
- **License Fees**: Sell the rights (exclusive or non-exclusive) to use patent- or copyright-protected IP.
Distribution Models: Pies

- Bakeries
- Farmer’s Markets
- Restaurants
- Grocery Stores
- Big Box Stores
- Specialty Cooking Shops
- Online Retailers

Brainstorm: What is Your Revenue Model?

How does your industry get products/services to customers?

- Output – Research Tasks

Where will your product/service enter that process? Who will make that buy decision? How will you get paid?

- Output: Options

What do you need to know to fill out the table below?

- Output – Research Tasks

<table>
<thead>
<tr>
<th>Price/unit</th>
<th># units sold/year</th>
<th>Annual Gross Revenue</th>
</tr>
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<tbody>
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The Story: Generating Expenses

A good expense story is as important as a good revenue story. A good expense story is:

- Comprehensive
- Well-researched
- Reasonably conservative
- Tied to specific, measurable outcomes

Brainstorm: Expenses

- What is the next milestone for your business?
  - Milestone definition.
- What do you need to get there?
  - Personnel
  - Materials (COGS)
  - Occupancy/Services
  - Capital Equipment (CAPEX)
  - Operating expenses (OPEX)
  - Sales and Marketing
- And what will these cost?
Definitions: Gross Margin

- Revenue
  - Money coming into the business from product/service
- Cost of Goods Sold (COGS)
  - What it costs to make your products
- Gross Margin
  - [Revenue – COGS]

Definitions: Profitability & Cash Flow

- Net Income
  - Revenues minus all expenses
- EBITDA
  - *Earnings Before Interest, Tax, Depreciation and Amortization*
    - Useful for valuation comparisons
- Cash Burn Rate
  - How much cash you lose each month/quarter
    - Indicative of cash flow issues
**Definitions: Pro-Forma Statements**

Pro-Forma Statements

- “Best Guess” predictions
- Allows for better product and financial planning
- Designed to show the impact of certain choices or assumptions

**Income Statements**

- Looks at revenue, expenses, and burn rates

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**Definitions: Capital Structure**

- **Senior Debt**
- **Subordinated Debt (e.g., Mezzanine Debt)**
- **Hybrid Financing (e.g., Convertible Debt, Convertible Equity)**
- **Preferred Equity**
- **Common Equity**
Development Grants (e.g. SBIR)

Friends, Family, & Founders ($5-$50k)

Angel Investors ($50k-$500k)

Early Stage Venture Capital ($500k-$2M+)

Venture Capital ($2M-$50M)

Private Equity, Project Financing ($2M-$50M)

IPO, Merger, or Acquisition ($2M-$50M)

Applied Research

Proof of Concept

Working Prototypes

Engineering Prototypes

Production Prototypes

Distribution

Product Introduction

Revenue Growth

Basic Research

Target Market

Founding Business Plan

Founding Team

Supplier Contracts

Distribution Contracts

Product Introduction

IPO, Merger, or Acquisition ($2M-$50M)

Research Grants

Net Cash Flow

Valley of Death

Capital Requirements: What’s Your Plan?

Business Value

Time

Proof of concept

Beta Customer

Commercial Launch

Cash Flow Break Even

UC Davis

Mike and Renee Child Institute for Innovation and Entrepreneurship
Brainstorm: Starting a Financial Model

What does your financing plan look like?

How much capital will you need at each step?

– Where might you get it?

Thank you!