

Securing Funds for Your startup Business

Michou Kokodoko
Senior Project Manager
Federal Reserve Bank of Minneapolis

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The views expressed here are those of the presenter and
not necessarily those of the Federal Reserve Bank of
Minneapolis or the Federal Reserve System

Overview

- Discuss successful strategies for building or obtaining equity
- Discuss debt financing alternatives

Some definitions

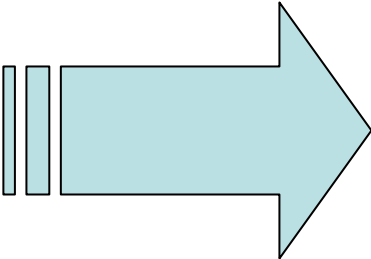
- Equity: money raised in exchange for a share of ownership in the company. Ownership is represented by owning shares of stock outright or having the right to convert other financial instruments into stock of that private company.
- Debt: funds borrowed that must be repaid over a period of time, usually with interest. The lender does not gain an ownership interest in the business and debt obligations are typically limited to repaying the loan with interest. Loans are often secured by some or all of the assets of the company.

Firm Continuum and sources of finance

DEBT

Principal
Family & Friends

**STARTUPS
SMALLER
FIRMS**



EQUITY

Principal
Family & Friends

Model for financing startups in some communities - ROSCA

Table 1
ROSCA system based on five participants with monthly payments of \$100

Members	Contributions by Month (in dollars)					Total Paid	Difference in Amount Received Less Paid = Net Gain (Loss)
	t_1	t_2	t_3	t_4	t_5		
P1 (Organizer)	100	100	100	100	100	500	0
P2	100	100	100	100	100	500	0
P3	100	100	100	100	100	500	0
P4	100	100	100	100	100	500	0
P5	100	100	100	100	100	500	0
Total Received	500	500	500	500	500	2500	

Note: Shaded cells represent the period in which the participants received the pot.

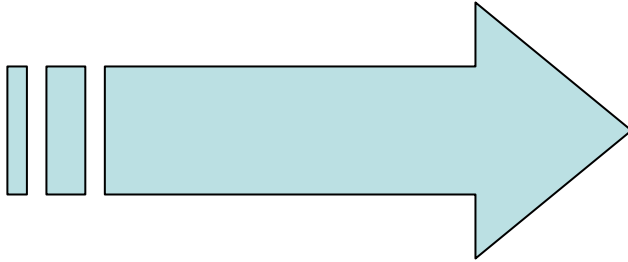
Source: This table contains exemplary data provided by the author and uses a table format similar to one used by Shirley Ardener in "The Comparative Study of Rotating Credit Associations" (Ardener, 1964, p. 214).

Continuum

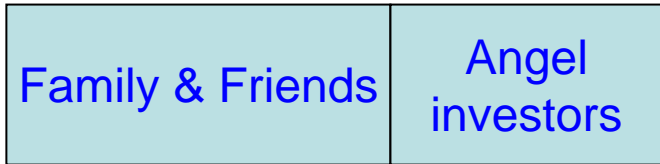
DEBT



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high net worth individual investors who seek high returns through private investments in start-up companies

2003 Survey of small business finances

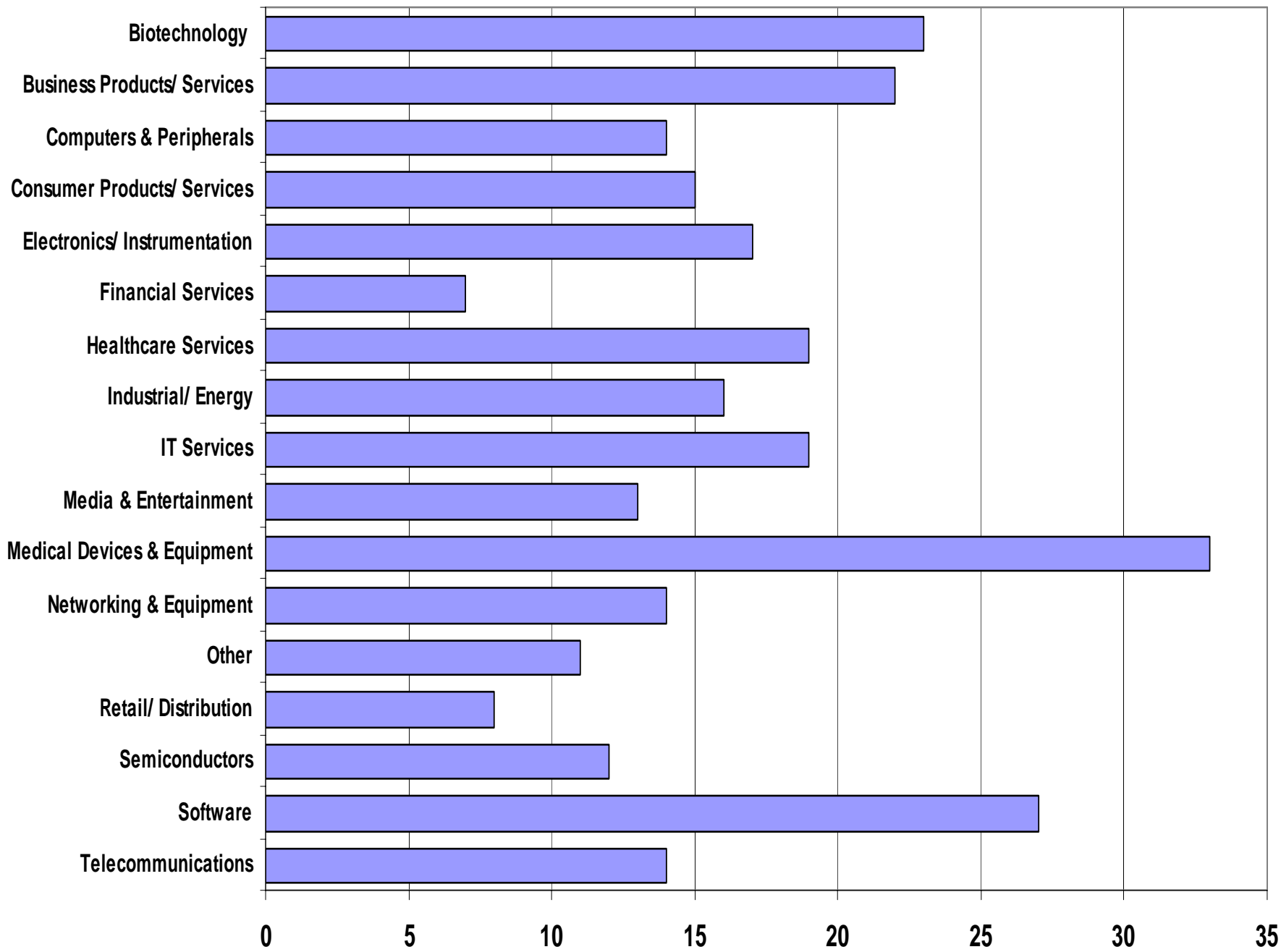
Characteristic	Credit Card	
	Personal	Business
<i>All firms</i>		
2003	46.7	48.1
1998	46	34.1
<i>Number of employees</i>		
0-1	48.6	32
2-4	48.1	45.7
100-499	32.2	71.5
<i>Organizational form</i>		
Proprietorship	52.3	35.1
S corporation	43.6	61.6
<i>Years under current ownership</i>		
0-4	45.2	46.6
25 or more	46.6	43.1

Microloans

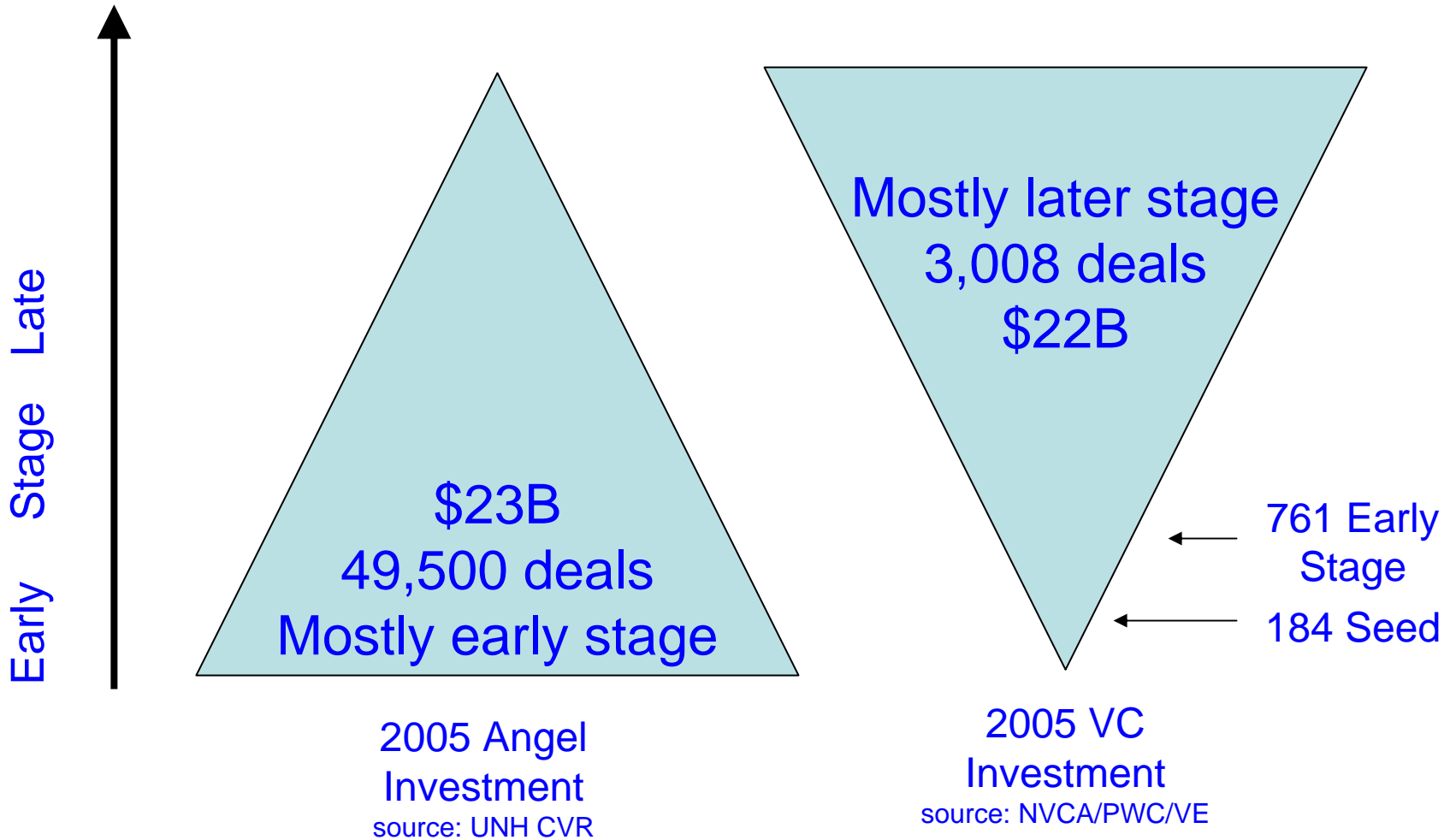
- Provided through intermediaries (usually non-profit microenterprise development organizations)
- Provides loans up to \$35,000 to start up and existing businesses
- Very flexible source of financing (more lenient on requirements such as collateral and credit)
- Interest rates typically between 8-15%
- Maximum term is 6 years

Angels

- Seek companies with high growth potentials, strong management teams, and solid business plans to aid the angels in assessing the company's value.
- Typically invest in ventures involved in industries or technologies with which they are personally familiar.
- Often co-invest with trusted friends and business associates (angel network).
- Because of their business experience, many angels invest more than their money. They also seek active involvement in the business, such as consulting and mentoring the entrepreneur.



Source: Angel Cap. A Membership appl. - 40 groups reporting (2005-2006)



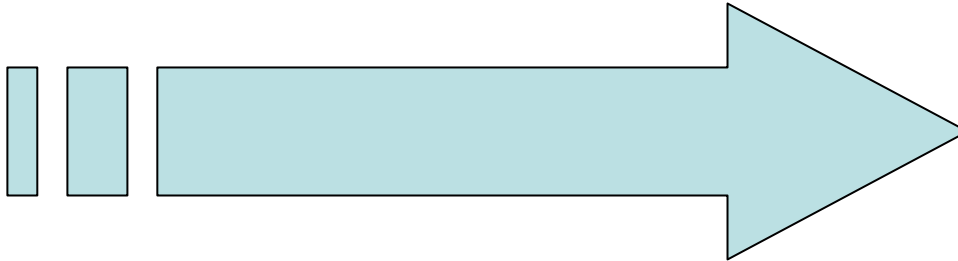
Angel investments compared to venture capital investments

Continuum

DEBT

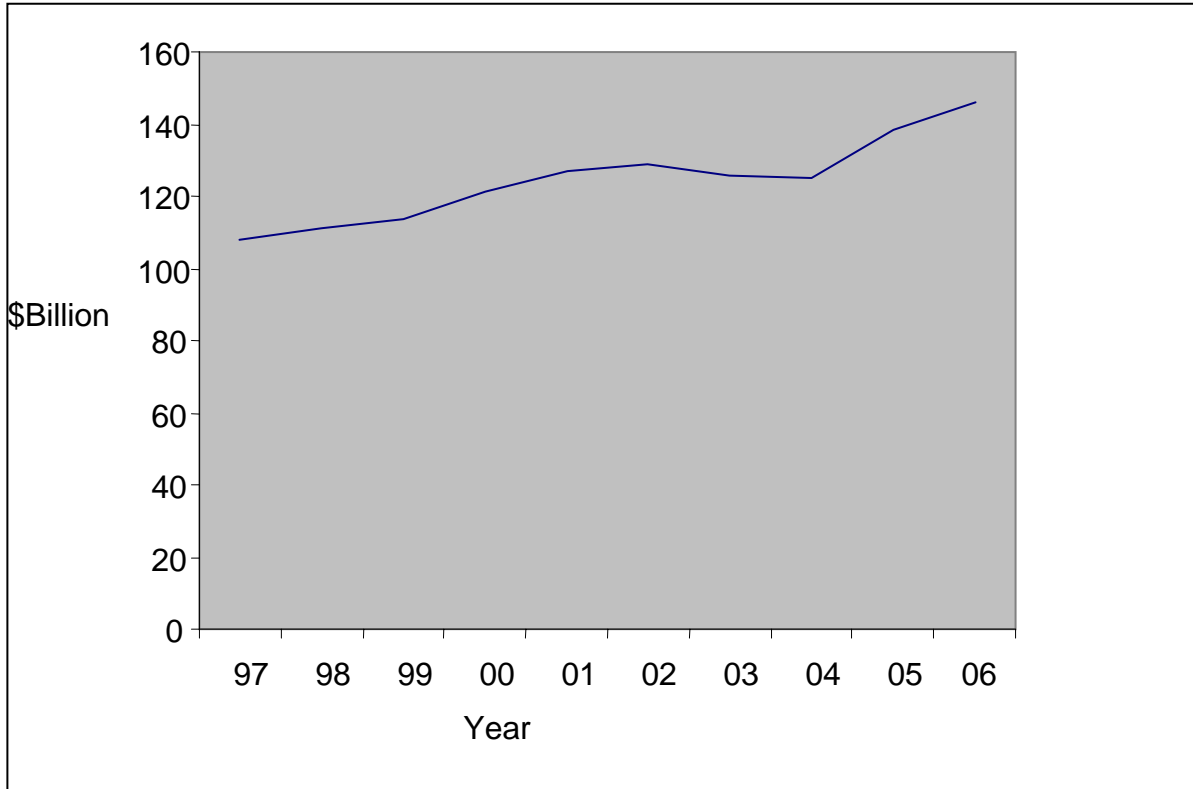
Family & Friends	Credit cards Microloans	Bank/guar - anteed loans
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**STARTUPS
SMALLER
FIRMS**



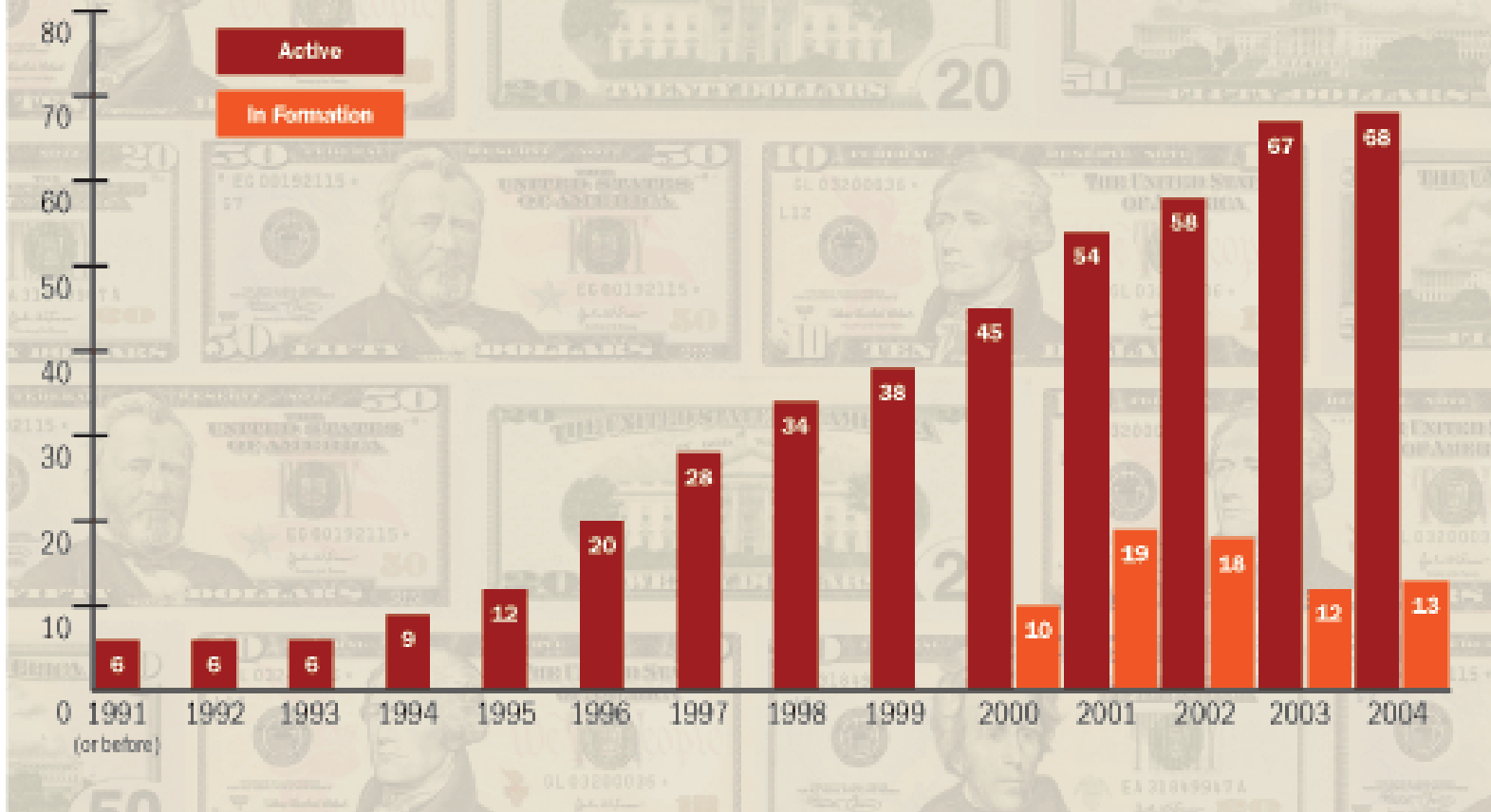
EQUITY

Family & Friends	Angel investors	Development VC
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Small Business Loans Under \$100K (Source: SBA annual reports)

Growth of CDVC Industry: Number of Funds Active or In Formation



About 80 funds in operation in the US today

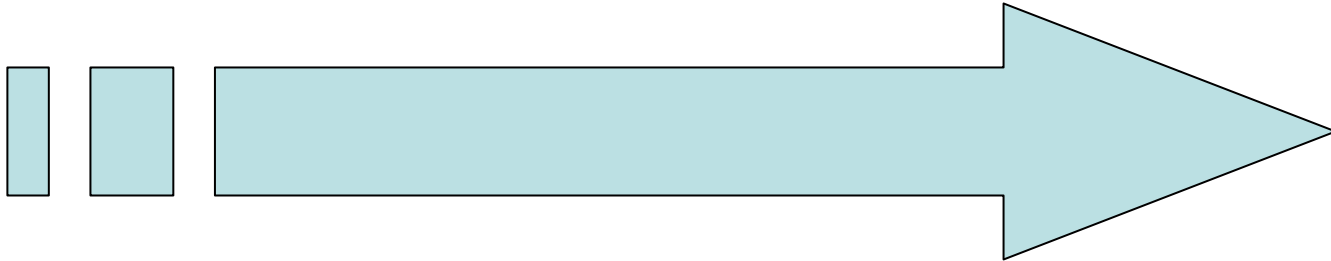
CDVC

- CDVC funds invest in businesses in low-income areas around the world. CDVC funds help businesses to flourish in areas that are in need of economic growth. Their investments create financial returns for investors as well as social returns in the form of good jobs that pay living wages and allow people to rise out of poverty and begin to build wealth.
- Manufacturing has made up 49% of all CDVC investments to date, with services, retail trade, and software development, following at 17, 7, and 6% respectively.

DEBT

Family & Friends	Credit cards Microloans	Bank/guar - anted loans	Public Debt/CP /MF/TC
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**STARTUPS
SMALLER
FIRMS**



**MATURE
GROWTH
FIRMS**

EQUITY

Family & Friends	Angel investors	Development VC	VC/PP/PE
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Growth/more mature firms

- Debt
 - Public debt
 - Commercial paper
 - Trade credit
 - Mezzanine financing
- Equity
 - Venture capital
 - Private placement
 - Public equity

Questions??

- Email: michou.kokodoko@mpls.frb.org
- Telephone: 612.204.5064