lighter CAPITAL

STARTUP FUNDING PLAYBOOK

A Practical Guide to Raising Capital for Sustainable Growth

INTRODUCTION

Building a business from scratch invariably requires outside capital to help realize its full potential, and many funding options are available. The funding path you choose will shape the trajectory and, ultimately, the success of your business.

It's not a random, one-size-fits-all decision. Multiple elements factor into the equation: business type, growth phase, market position and more will play a part.

This whitepaper will help you in three key ways:

- You'll know the trade-offs, risks and pay-offs, so you can adjust your business, personal and financial realities accordingly.
- At each stage, you can make sure your business is attractive to your targeted investor groups.
- You'll avoid wasting time chasing down the wrong funding sources – freeing you to work on the other essentials of your business.

We'll also compare/contrast funding options to offer pros and cons to help you identify the best choice for your business model.

Let's get started.

CONTENTS

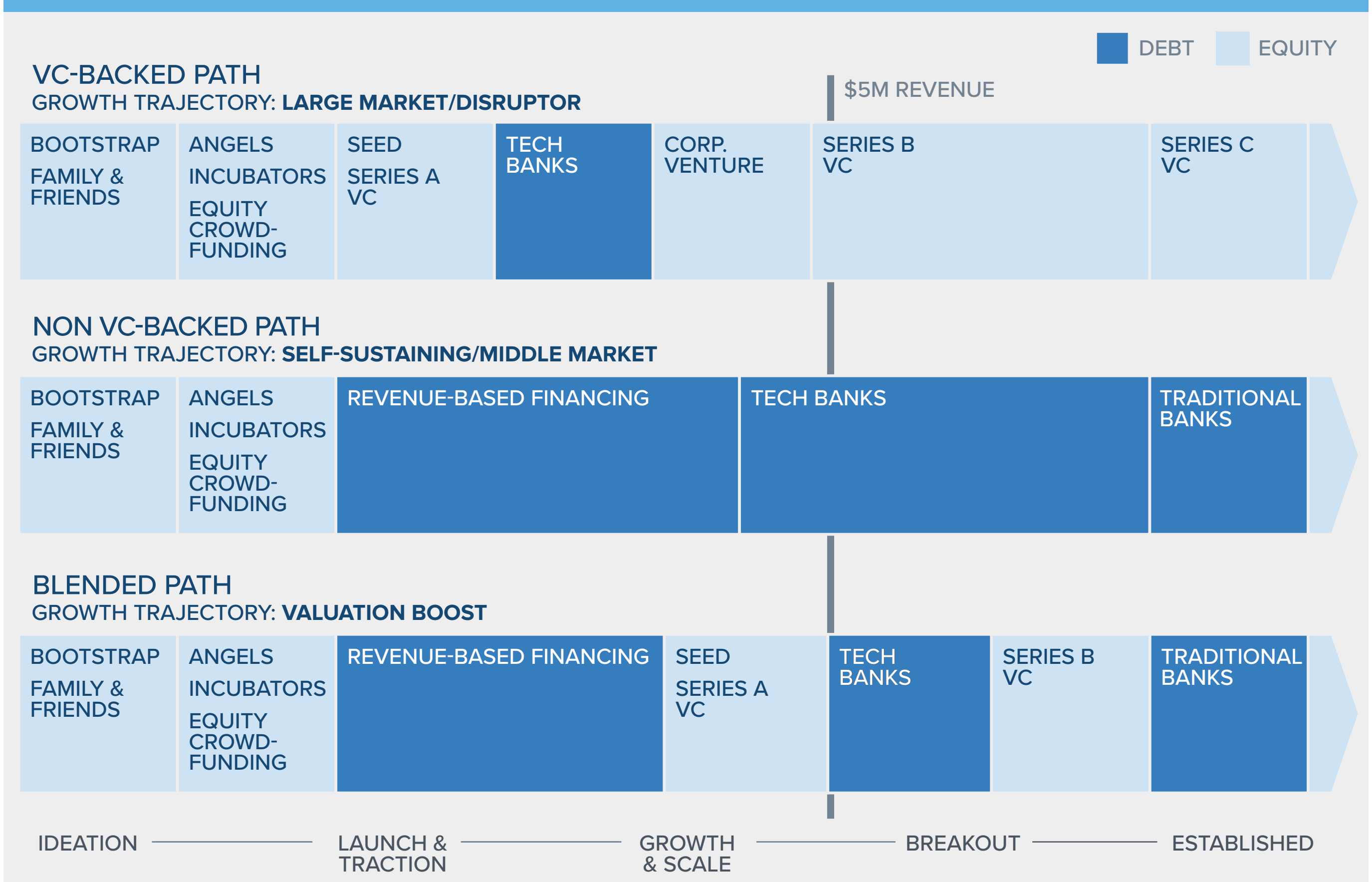
WHAT FUNDING PATH BEST SUITS YOUR BUSINESS GROWTH STRATEGY?

Envision your business in one, five, and 10 years before you decide what type of funding makes sense.

Consider the scenarios in the diagram below.

If you expect to be a major player in a $1 billon market, a predominantly venture capital-backed funding path makes sense. However, if your growth potential is limited or you can reach your market share goals under your own steam, a non-VC or blended path reliant on debt funding may be better, because you'll retain more long-term control and value.

PICK THE RIGHT FUNDING PATH FOR YOUR STARTUP



Consider how these options work for particular business models and objectives.

GROWTH TRAJECTORY: **LARGE MARKET/DISRUPTOR**	GROWTH TRAJECTORY: **SELF-SUSTAINING/MIDDLE MARKET**	GROWTH TRAJECTORY: **VALUATION BOOST**
VC BACKED PATH	**NON-VC BACKED PATH**	**BLENDED PATH**
For companies: Targeting large $1billion- plus markets generating a minimum tenfold return. Requiring periodic, large infusions of capital to get off the ground and capitalize on an opportunity.	**For companies:** Generating growth, predictable revenues and strong margins. Seeking smaller capital amounts periodically to boost growth.	**For companies:** That can get to scale on their own. That will require a large equity infusion to attain market leadership.
What to expect It requires a significant investment of time to connect with and attract investors. Expect to cede a significant portion of equity and control. This is for those looking to exit via sale or IPO.	**What to expect** Access smaller amounts of capital as needed to fund early growth activities via revenue-based financing. Once past the $5 million revenue milestone, further debt to fund larger expansion is more accessible. On this path, the entrepreneur retains equity and control.	**What to expect** Access smaller amounts of capital as needed to fund early growth activities via revenue-based financing. By using a debt option, such as revenue-based financing (RBF), to fund early growth, a company can improve its valuation. A better valuation strengthens the entrepreneur's position when negotiating the equity split with outside investors.

MORE ON VENTURE CAPITAL, BANKS, AND REVENUE-BASED FINANCING

A funding path can keep you focused on what's important for you and your company.

Various investors seeking different outcomes, so they value different growth characteristics.

Traditional banks are not all that impressed by exponential growth rates. They prefer established companies with steady profits and strong annual revenues.

Specialist technology banks are savvy when it comes to software businesses, but they usually will consider financing after an initial VC round.

Venture capitalists are looking for companies make a splash quickly. Hockey-stick growth is one factor for determining a company’s breakout potential. High-growth companies are more likely to attract venture capital, but success is not a given. Additionally, expect steep competition for only a precious few venture investments.

A revenue-based lender, such as Lighter Capital, fund tech startups seeking smaller infusions for an array of purposes: sales and marketing, product development, staffing, fulfillment, etc. These lenders fill the funding gap between VCs and traditional banks. Such financing comes without ownership dilution or ceding control. More important, it doesn’t require companies to be profitable. They just have to be generating revenue and show diversity of customers and solid growth potential.

HOW MUCH CAPITAL WILL YOU NEED?

Securing as much financing as possible is an understandable impulse, but there are pros and cons. With more capital, you can jump on opportunities and respond to market shifts. A quick product launch can mean bigger market share, more revenue, higher company valuation. BUT having too much capital can put stress on your business, sap your focus, and skew your strategy. Make sure your glass is just full enough — and not overflowing.

HOW CAN YOU DETERMINE HOW MUCH YOU NEED?

Your business plan should include growth milestones for six months, one year, and three years, as well as what's required to get there and the cost to go from one milestone to the next.

SOME PITFALLS OF RAISING TOO MUCH MONEY

The more you raise, the more you have to return to investors.

Payback is … well, an obligation. It's costly, at that. Don't be blinded by the euphoria of finding someone willing to give you gobs of money: The more you borrow or raise, the more you will owe — either in interest or sacrificed equity and control — and the longer it will take you to pay it back.

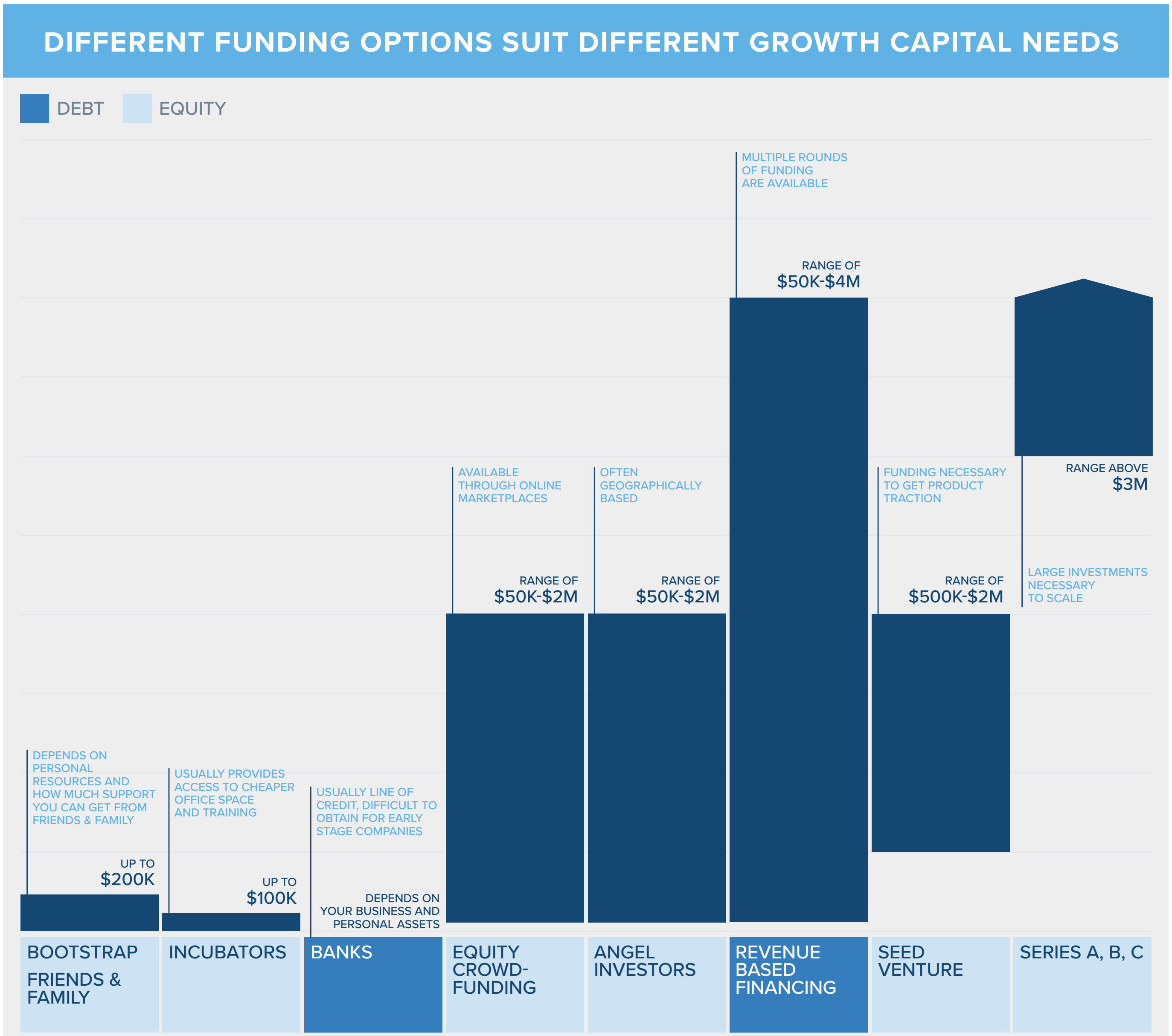
Venture capitalists expect at least at a tenfold return on investment. If you raise $20 million dollars at a post-investment $50 million valuation, you can't sell until your company is valued at $500 million.

Easy money can take distract you off-track.

Raising too much money can lead to spending on items that don't feed your company's development. Stay focused on essential milestones, not on discretionary expenses. Fancy chairs don't boost revenue.

You might not be ready for growth.

When you seek to expand, make sure you're prepared to handle success. Can you take on additional customers? Will you continue to provide outstanding customer service? Do you have the resources to train new hires? If you're not ready for a big leap, take a smaller step and limit your investment.



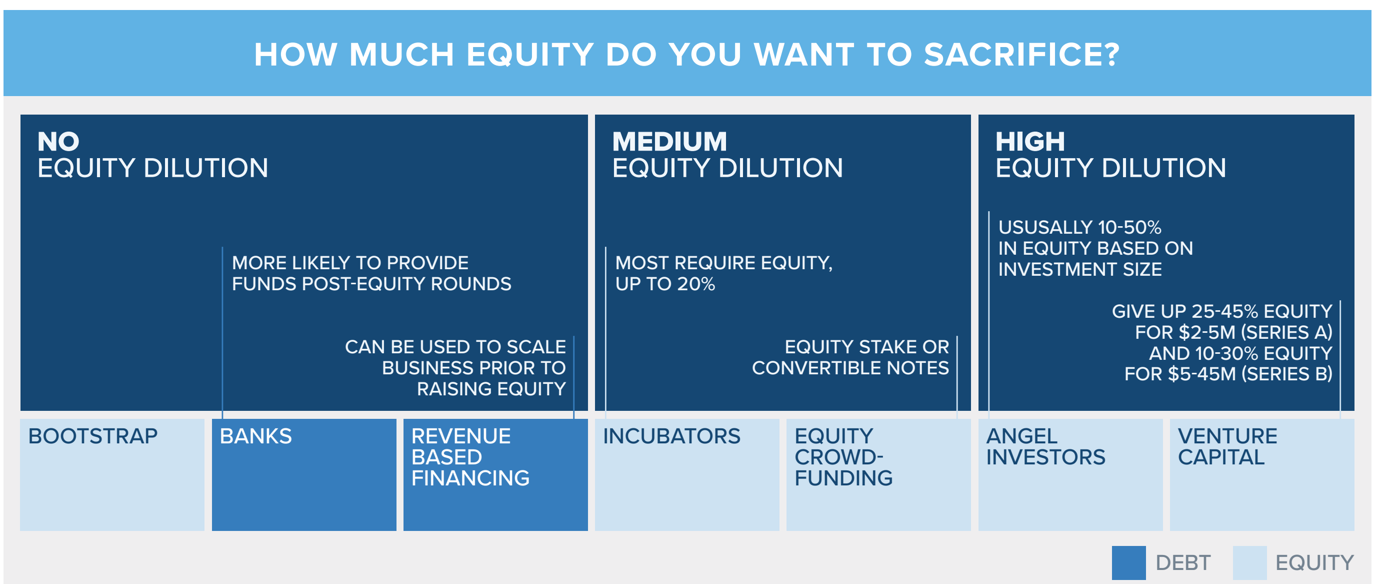
HOW MUCH EQUITY ARE YOU WILLING TO GIVE UP?

If you’re looking to remake a market and need millions of dollars to scale, the venture capital path is probably the only route to secure the firepower you need — but you’ll have to give up 10% to 45% of equity to get it.

If you’re building a modest company — without a planned billion-dollar exit but with recurring revenues and clear avenues to profitability — explore debt options that don't dilute your equity.

Even if you plan eventually to raise venture capital, you may want to look at debt financing to expand your company first to attract higher interest from investors. Very few companies succeed in securing venture capital; the more sustainable your revenues and market share, the better your chances.

Expanding your company before pursuing equity financing can improve your company's valuation, which means giving up less equity in exchange for funding.



WHAT ARE YOU WILLING TO RISK TO FUND YOUR BUSINESS?

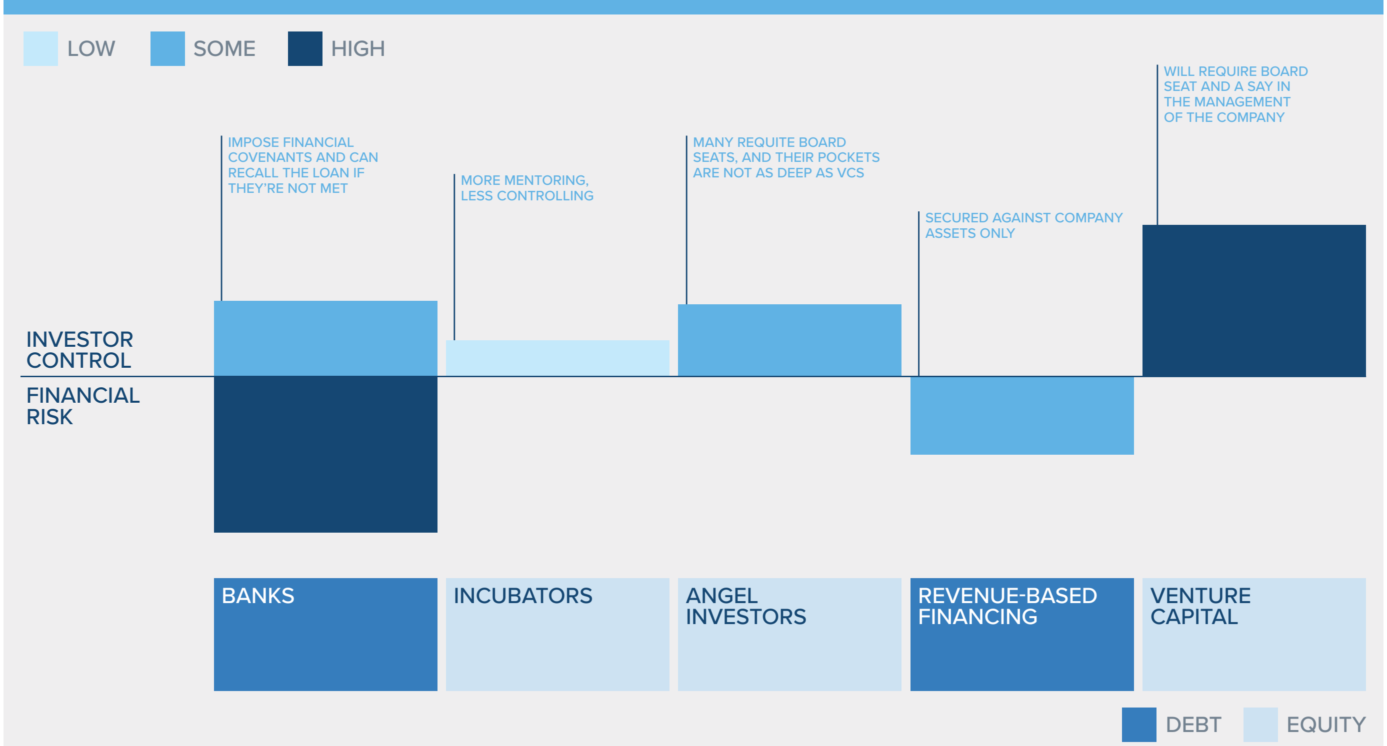
Decide what risks you're willing to take. Two big concerns are personal financial risk and loss of control over the company. Often debt funding will have higher financial risk, and equity financing will require you to give up some, degree of control.

PERSONAL FINANCIAL RISK

Maybe you tapped into your savings to fund products, services, and staff the early stages. Risk doesn't end there, though, even as you pursue outside financing.

At first glance, a traditional bank loan can seem like an ideal solution. Unfortunately, such loans are especially difficult for software and technology entrepreneurs who have no physical assets for collateral. Any bank willing to take a chance will require you to guarantee the loan not just with your company assets, but with your personal assets, as well. Soon you'll be fielding questions about your personal credit score and how much equity you have in your house.

THE FINANCIAL RISK VERSUS CONTROL TRADE-OFF



LOSS OF CONTROL

Who'll be in charge of your company after you raise funding?

From VC and angel investors to supportive friends and family members, anyone with a piece of your business will offer a piece of their mind about how to run it. Even "silent partners" will tap their feet waiting for some return on investment (ROI).

Starting your own company is stressful enough without risking your home and retirement fund in the process.

Before you sign on the dotted line, make sure you understand exactly what you're giving up.

- How will shared control be structured?
- Who will have a say in major decisions, and what will happen if you disagree?
- How will preferred stock options allow investors to gain influence over the company's direction?

Bank loans might come with fewer strings attached, but financial restrictions can limit what you can do with the money.

RISKS TO PERSONAL RELATIONSHIPS

Finally, consider: the potential damage to relationships with early supporters who have infused cash into your start up, but see it as a bridge loan rather than a long-term investment.

Going back to that well for additional growth funding is often more difficult than you might expect.

Make sure you have an exit plan for buying out friends and family without damaging personal relationships.

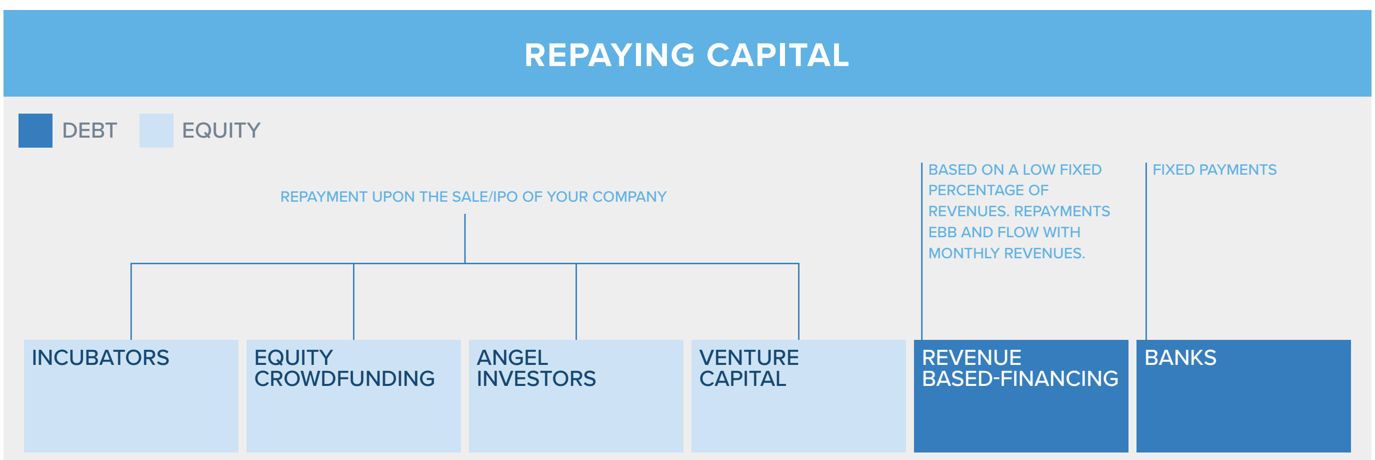
HOW DO YOU WANT TO REPAY THE MONEY?

Most financing is made with an eye to ROI which means repayment plus a premium.

Banks require fixed repayments, regardless of how well your company is doing. Fixed interest payments may hamper your ability to run your company, especially if your business is cyclical. You may be stuck making pre-set payments even when revenues are down and money is in short supply.

Revenue-based financing differs from banks in that there are no fixed repayments. Payments can ebb and flow with a company's business revenue based on a percentage of monthly income. If a company grows faster than expected, the loan will be paid off sooner, as monthly income is higher. Equally, if revenue is lower in a particular month, the repayment amount is lower. Also, there is are usually no fees or penalties for early repayment.

Angel investors tap their own wealth, and venture capitalists draw from an investment fund—both with the objective of significant capital appreciation. That money will ultimately come out of your business.



DO YOU WANT GUIDANCE IN GROWING YOUR BUSINESS?

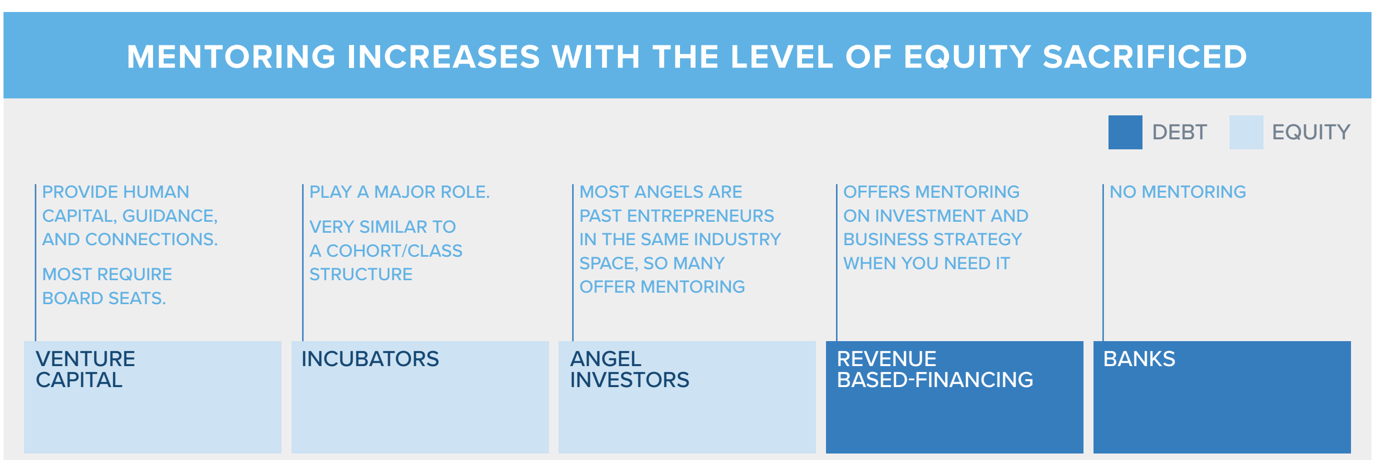
One advantage of being an entrepreneur is that you make all the decisions. That's good news and bad news. It can be frustrating to have to make crucial decisions on your company's future without getting feedback or validation.

Angel investors and incubators provide mentoring, connections, and hands-on knowledge during the startup stage to entrepreneurs, often offering game-changing ideas.

Once you start seeing revenues, other financing options become available with varying amounts of mentoring.

Venture capitalists can provide human capital, guidance, and business connections help you develop your business. Even when they provide valuable mentoring, they will also exercise a fair amount of control in return for their investment, so their "advice" is not always optional. When you seek venture capital, you're not just securing financing;- you're also taking on an active business partner with a vested interests.

By contrast, banks provide no guidance or mentoring — nor meddling, for that matter.



HOW LONG CAN YOU SPEND RAISING FUNDS?

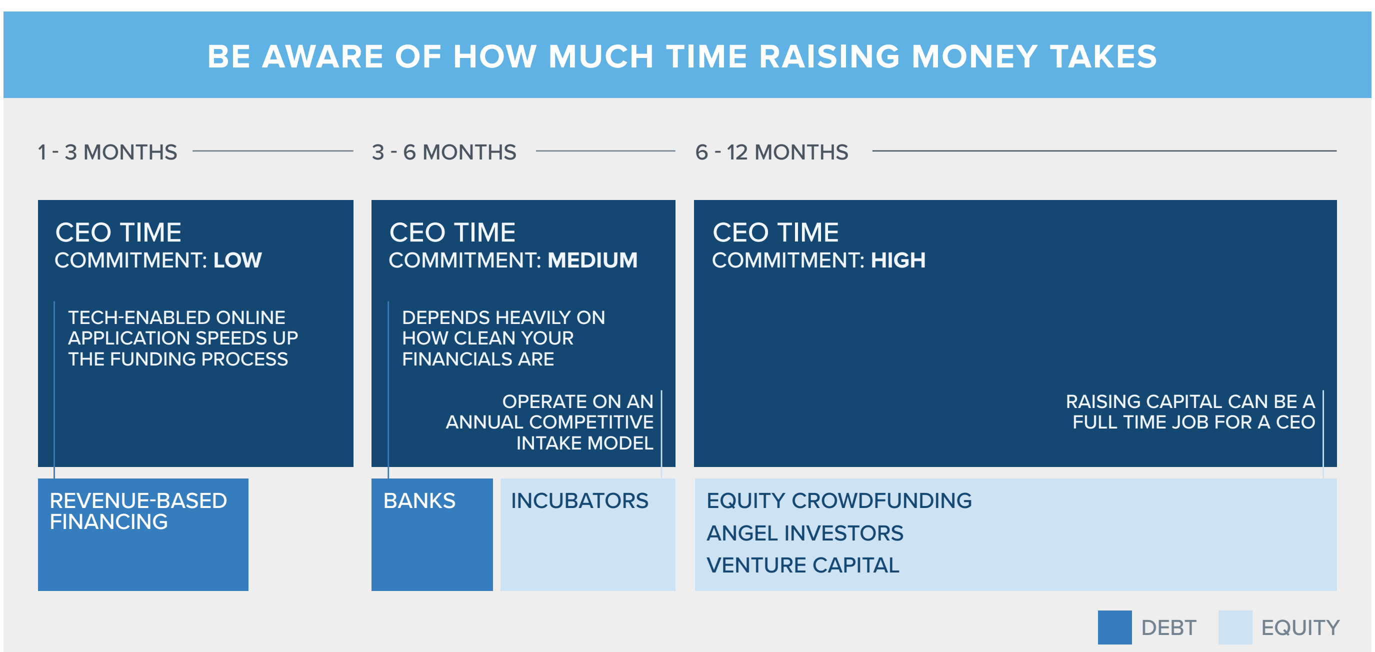
Time spent chasing money is time away from running your business.
Ask:

- How long will it take to raise funds, and how much of a distraction it will that be?
- How long are you willing to court potential investors?
- How much time will you spend gathering financials and filling out paperwork for a bank loan?
- Can your business thrive while the CEO is out raising funds?
- Will the company culture survive the absence of the founder and chief motivator?
- Is there a cost to not responding quickly to market changes?

Entrepreneurs build a war chest so they can capitalize on opportunities. Still, doing that fundraising legwork is often a horribly slow, inefficient, and distracting process.

You can easily spend an entire year working your personal networks, having coffee meetings, making presentations, and undergoing due diligence in pursuit of an investor—and by that time any number of opportunities could have whizzed by and disappeared.

When comparing different options for funding your next round of growth, factor in the time and opportunity cost associated with securing that capital.



EASY GUIDE FOR EARLY- STAGE REVENUE-GENERATING COMPANIES.

Before making a decision, line up the funding options you are most seriously considering with the elements that are most important to you.

This chart puts forth three options — bank loans, revenue-based financing, and venture capital — for easy comparison with regard to the seven key questions we've examined.

	BANK LOAN DEBT	**REVENUE-BASED FINANCING** DEBT	**EQUITY FINANCING** EQUITY
BUSINESS GROWTH STRATEGY	Established businesses with hard assets	Early-revenue growth stage	Company with a breakout product in a market of more than $1 billion or more
HOW MUCH CAPITAL DO YOU NEED?	Depends on your business and personal assets	$50,000-$4M	$500k - $3M+ Depends on round
EQUITY DILUTION	No dilution	No dilution	25-45% ownership in exchange for $2-5M Series A rounds. 26-45% in exchange for $2-5M in Series B rounds
RISKS	High financial risks on business and personal assets and impose financial covenants	Secured against company assets, not personal assets. Entrepreneur keeps full control	Investors have control via board seat
REPAYMENT	Fixed repayments	Repayments ebb and flow with monthly revenues	Venture capitalists target 10x return on investment
GUIDANCE	No mentoring	Varies. Lighter Capital offers mentoring on investment and business strategy when you need it	Will provide human capital, guidance, and connections to help grow the business
TIME SPENT RAISING FUNDS	Can take 6 months to get approvals	Can be finalized in 4 weeks	Can take 6 to 12 months

OVERVIEW

As you've just learned, not all funding is the same, nor does all funding serve the same purpose. The good news is that you have many options when raising capital for your startup. But the most important question is, "Which is right for my startup and me?"

You must consider all the factors with raising capital, including the time commitment, amount of needed money, long-term company growth goals, ability to maintain ownership /direction, and the possibility of obtaining the desired type of funding. Sometimes one source of capital may look cheap until you understand its long-term costs.

It's also vital that you understand the success of your fundraising efforts may come in stages. Perhaps initially, non-dilutive funding is your best option for growth capital, but over time, equity-based growth capital provides the "punch" you need to achieve specific sales goals. Don't shy away from blending capital types and sources to help you achieve your long-term goals, but also realize that each comes with its benefits and costs. Choose wisely, and you can ensure the outcome you want for your startup; choose poorly, and there may be unforeseen costs.

No matter which funding source you choose, it's best to walk into the fundraising process with eyes wide open and prepared to make tough choices that will have long-term positive payoffs for you, your team, and shareholders.

> Lighter was brilliant because of how easy and fast it was to access capital. Being non-dilutive and affordable are great, but time is everything for a founder. The VC support was absolutely above & beyond, and included an intro to one of our eventual investors.

BRIAN SCHIFF
CO-FOUNDER AND CEO

FLIP

ABOUT LIGHTER CAPITAL

Lighter Capital is the leader in founder-friendly financing. Our unmatched combination of up to $4 million in non-dilutive financing, professional networking resources, product discounts, and capital partner connections have helped hundreds of US, Canadian and Australian startups succeed on their terms. Founders find our application process easy and prefer how our financing features no hidden fees, equity, warrants, or covenant requirements. We've already financed numerous startups, yours could be next.

INTERESTED IN APPLYING FOR A LOAN?

If you're ready to expand your tech startup and still want to maintain ownership and control, connect with our investment team by applying for funding today.