# FUNDING GUIDE FOR STARTUP

DASH VENTURE LABS

## *Types of Funding*

## *&*

## *Their Role in*

## *Business Lifecycle*

***Talk to the experts in understanding your funding requirements***

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# DASH VENTURE LABS

**This guide aims to empower founders with the various funding avenues available in today's changing business ecosystem.**

**The objective is to understand the stages of startup cycle and types of funding available, including governments grants and similar offerings from other financial institutions.**

## I. What is Startup Funding?

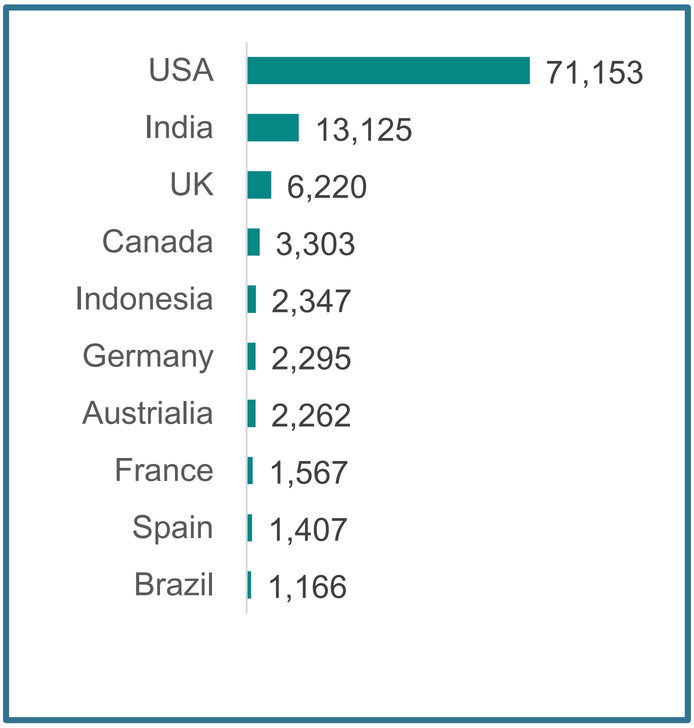
Funding refers to capital required to fund a business. Every business will need funding in various forms but the type of funding will differ based on the business cycle and maturity of the business. Hence, for a CEO and/or a Founder, understanding the various types of funding and its impact on the broader business and shareholding pattern is important. This will ensure that the startup has adequate capital to continue its growth trajectory.

# II. Investments in Startups

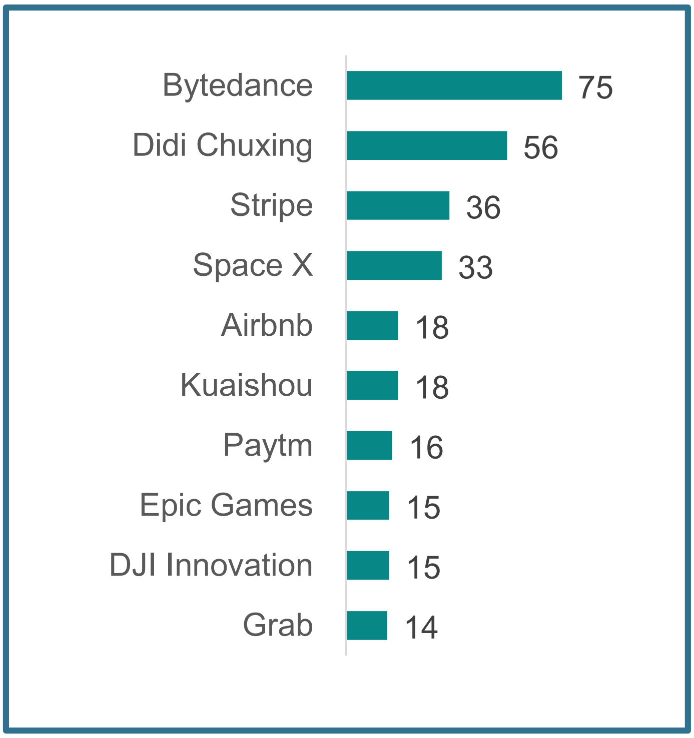
Startups require capital to fund their innovative ideas to establish/penetrate into new or existing markets. However, it is important for founders to understand the various fund raising avenues. They should also understand the stages of the business cycle and raise funds to support their venture.

Liquidity does not seem to be a problem for founders today, but they should understand the importance of each round of funding and modern structures designed around each capital raising activity. More importantly, how these will impact their shareholding structure and future fund raising activity.

**Top 10 Countries by Number of Startups**



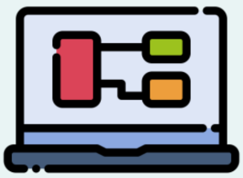

**Highest-valued Private Startups Globally (US$ billion)**



## III. Why do Startups Require Funding?

A startup might require funding for one, a few or all of the following purposes:


Product Development


Prototype Creation


Raw Material & Equipment


Team Hiring


Legal & Consulting Services


Licenses & Certification


Sales & Marketing


Office Space & Administration


Expansion


Acquisition

# IV. Stages of Funding

**Pre-Seed Funding**

It is the earliest stage and is often funded by supporters, friends and families

**Seed Funding**

It is considered as first official stage of funding. Seed funding is the initial stage of a growing business

**Series A Funding**

This type of funding is often achieved after having the first proven track record of business success

**Series B, C, D. & E Funding**

This type of funding is usually used to grow an existing business & hire new employees

There are multiple sources of funding available. But, the source of funding should typically match the stages of operations of the startups.

| | | | | |
|---|---|---|---|---|
| **Stage of Startup** | Ideation | Validation | Easy Traction | Scaling |
| **Stage of funding** | Pre-Seed Stages | Seed Stage | Series A Stage | Series B, C, D & E Stage |
| **Source of funding** | Bootstrapping / Self-financing, Friends & Family | Incubators, Government Schemes/Grant, Angel Investors, Crowd-funding | Venture Capital, Banks/NBFC's | Venture Capital |

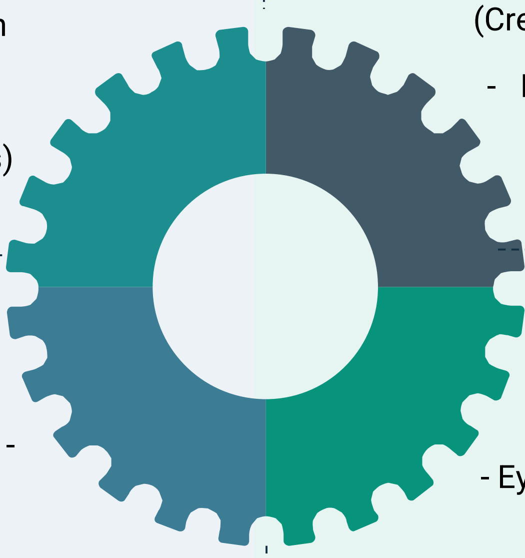
# V. Stages of Startups

### 1. Ideation

(Identify the gap - Utilize your own Experience - Market Research - Analyze the idea in various aspects)

### 2. Validation

(Create an MVP - Launch the MVP - Evaluate the results - Overhaul the product)



### 3. Early Traction

(Cash inflows - Focus on KPI's - Critical situation - Gain trust)

### 4. Scaling

(Broaden the horizon-
- Eye the market share, acquisition opportunities
- Marketing & brand image)

# VI. Types of Funding

**Types of Funding**

**Internal Sources**

These are generally secured at early stages of a startup. This includes his/her personal savings or borrow from friends, family and relatives to fund the startup.

**External Sources**

These are an important source of funding for any startup. The stage of securing such funding will vary across startups. These include Government Funding, Incubators and Accelerators, Angel Investors, Private Equity, Venture Capitalists, Crowd Funding, and other innovative funding avenues

# VI. Types of Funding

**Bootstrapping**

Entrepreneurs fund their personal savings to fund their business

**Family & Friends**

Here, entrepreneurs borrow money from their spouse, parents, family, or friends. The money raised is repaid later as business profits increases

**Angel Investors**

These are high net worth individuals (HNIs) who invest in small businesses for equity. They usually expect high returns from their investments.

**Private Equity & Venture Capital**

Private Equity and Venture Capitalist funds mostly invest in well established businesses for a time frame of 3-5 years

**Crowd-funding**

Businesses raise capital from a large number of individuals through an online platform. It is comparatively faster and an easy process.

**Peer-to-Peer Lending**

These lending platforms enable entrepreneurs to seek finance from other businesses

**Bank Loans & Govt. Grants**

Entrepreneurs can borrow funds from banks. The government also provides financial support in the form of grants and subsidies

**Incubators and Accelerators**

Business Incubators and Accelerators provide various forms of assistance to businesses in their startup phase.

**Seed Funding**

Investment at early stages of operations, so as to materialize the business from idea to reality

**IPO**

An IPO is the process where a company offers corporate shares to the public for the first time

# VI. Types of Funding

## 01. Bootstrapping

Most entrepreneurs fund their business using their own personal savings. It is the single most common source of capital for entrepreneurs.

There are limitations as the savings are not always enough to cover 100% of an entrepreneur's expenses; thus it's often used in conjunction with other funding sources.

## 02. Friends and Family

1. Borrowing money from their spouse, parents, family, or friends is also a very common practice adopted by entrepreneurs. This money is also known as 'patient money'.

2. This is the simplest mode of raising funds as there is no major compliances. However, the biggest drawback is the limitation of funds available, which might not be sufficient to suit many business models.

## 03. Angel Investors

Angel Investors are high-net worth individuals (HNIs) focused on financing small business ventures in exchange for equity.

# VI. Types of Funding

Raising funds from Angel Investors is not an easy task, as the entrepreneur has to pitch the idea and convince the investor about the opportunity as well as being successful in the business venture.

Angel investors expect a high return on their investment and thus monitor or are involved in the entire business and processes.

## 04. Private Equity & Venture Capital

Private Equity (PE) & Venture Capitalists (VC) funds are professionally managed funds.

They generally look for businesses which are revenue generating, scalable and have a proven track record.

The typical time-frame for such investments is 3-5 years

They have a hands-on approach, which means they will be part of the overall business.

PE & VC generally invest in companies with potentially large and lucrative markets, strong management/advisor team, and a business model they feel can be executed.

# VI. Types of Funding

## 05. Crowd-funding

1. This type of financing is raised through an online platform, where ones needs to present to any interested individual group.

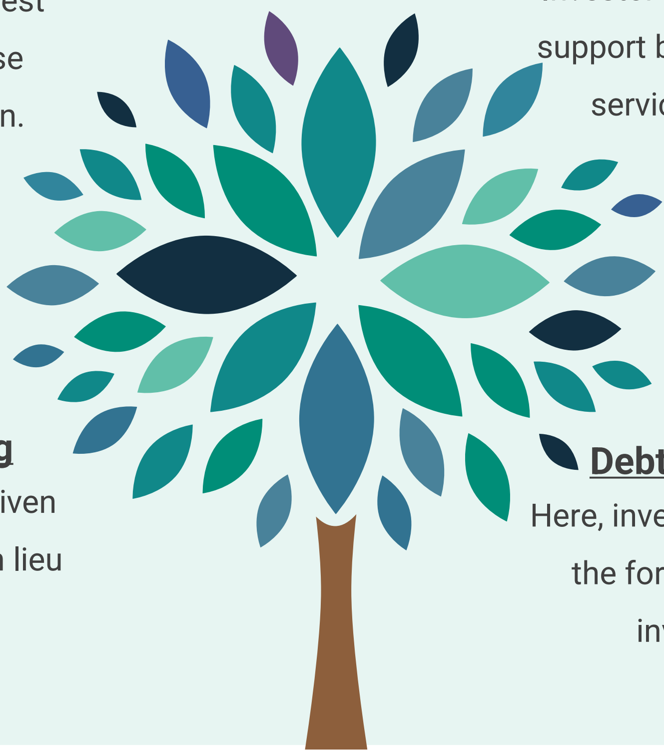
2. The process is faster and more effective, since funds are raised online and a large number of people are able to contribute.

3. Although crowd-funding may not raise a lot of money, it can be seen as validation of a business idea with the level of participation.

4. There are 4 major types of Crowd-funding:

**Donation Crowd-funding**
Here the investors mainly invest for charitable/social purpose and do not expect any return.

**Reward Crowd-funding**
Investor is rewarded for financial support by providing the product/service at discounted rate



**Equity Crowd-funding**
In this case, investors are given ownership in the company in lieu of their investment

**Debt Crowd-funding**
Here, investors expect returns in the form of interest for the investment made

# VI. Types of Funding

## 06. Business Incubator & Accelerator

Business Incubators and Accelerators focus on the high-tech sectors. However, there are some local economic development incubators that focus on areas such as job creation, revitalization, and hosting and sharing services.

Business Incubators & Accelerators are similar to Angel Investors; however, they are more knowledgeable and have expertise in various business verticals.

Accelerators get involved at the growing stage of a business, whereas Business Incubators are involved at an early stage.

## 07. Government Grants

1. Governments have established agencies to support the startup ecosystem by providing funds in the form of grants and subsidies to startups.
2. Founders can apply for such financing through government programs offered on their respective websites.

## VI. Types of Funding

### 08. Initial Public Offerings

Initial Public Offerings (IPOs) are typically the route adopted by companies in the advanced stages of their business cycle.

Companies that prefer to raise significant amounts of money and are willing to offload equity to the public should consider an IPO as a fund raising alternative.

It usually takes between 8 to 12 months for companies to go public due to regulatory approvals and processes.

### 09. Banks

| | | |
|---|---|---|
| Bank loans remain a time-tested funding option for entrepreneurs, although they can be difficult to secure. | Entrepreneurs are eligible for a small business loan if he/she has good credit history and can provide collateral. | Difficult and long processes with various approvals required |

## VII. Comparison of Various Funding Options

| Type of funding | Stage | Fund Size | Availability | Investment Time frame | Expected Returns | Ownership |
|---|---|---|---|---|---|---|
| Bootstrapping | Early | Small | Easy | 1 year | Low | Entrepreneur |
| Seed Capital | Initial, Validation | Small to Medium | Medium | 1 to 2 year | Medium | Entrepreneur Investor |
| Angel Investors, Business Incubators & Accelerators | Initial, Validation | Medium to Large | Medium | 1 to 3 year | High | Entrepreneur Investor |
| Venture Capital & Private Equity | Traction, Scaling | Large | Medium | 3 to 5 years | High | VC/PE hold substantial stake |
| Schemes by Government Authorities | Initial, Traction | Small to Medium | Medium | -- | -- | Entrepreneur |
| Banks | Initial, Traction | Credit History/ Collateral Based | Difficult | 1 to 3 years | Fixed Rate | Entrepreneur (Collateral to be provided to bank) |

## VIII. Funding Based on Age of Company

| Average age of a firm in years | Investors | Stage |
|---|---|---|
| 1 | Family & Friends | Early Stage (Ideation/ Validation) |
| 3 | Angel/Seed/VC | Early Stage (Ideation/ Validation) |
| 5 | VC/Banks | Growth Stage (Early Traction/ Scaling) |
| 8 | Public Market | Growth Stage (Early Traction/ Scaling) |

# IX. Types of Investment Agreements

## Convertible Notes

- A Convertible Note is an instrument through which a company can raise finance.
- This debt instrument has an interest rate, a discount rate, valuation caps, a QFE (Qualified Financing Event) that would require a significant raise, and maturity dates.
- The intention of this convertible note is that it converts to equity when the company does an equity financing.

## Simple Agreements for Future Equity (SAFE)

- It is an agreement whereby a startup raises funds from investors by providing them with the right in future equity of the startup.
- Created by the Y Combinator SAFE, Simple Agreement for Future Equity is an easy way for investors to get funding quickly.
- SAFEs do not have a maturity date; they do not accrue interest; they may or may not have a valuation cap, and they typically do not have a discount rate. Due to these terms SAFEs are described as the most company-friendly investment.

## Keep It Simple Security (KISS)

- The Keep It Simple Security (KISS) was introduced by 500 Startups as an alternative to both Convertible Notes and the SAFE.
- This security may or may not have an interest rate or maturity date but will have a valuation cap and discount rate, and has a QFE of US$ 1 million.

# IX. Types of Investment Agreements

## Simple Agreements for Future Tokens (SAFT)

- It is an agreement whereby a security is issued for the eventual transfer of digital tokens from crypto currency developers to investors.
- The Simple Agreement for Future Tokens (SAFT) is an unique convertible instrument because it is not debt, and does not convert into equity.
- The contract determines the rate at which the purchaser of the note is entitled to receive tokens. The tokens do not represent equity in the company.
- An investor under this agreement typically invests in a SAFT with the specific interest of earning tokens.

***Disclaimer:***

# X. GCC Funding Activity

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**USD 1.73 billion** — Total Funding for H1 2022

**+ 67.6% YoY**

**182 Deals** — Foreign investors participation

**354** — Total Number of Deals

- The year 2021 saw a record USD 2.87 billion funds raised in MENA-based startups, up 339% Y-o-Y, while the number of deals went up by 76% Y-o-Y.
- UAE-based startups raised USD 1.46 billion (196 deals) which accounted for nearly 51% of the total funds raised in the MENA region.
- The Top 5 deals accounted for almost a third of the total funding (31%) in 2020.
- After UAE, Saudi Arabia ranked second in terms of funds raised (USD 647 million), followed by Egypt (USD 445 million)
- In terms value of investment by sector, Foodtech raised USD 596 million, followed by Fintech (USD 519 million) and E-commerce (USD 480 million).
- Total investment in the GCC reached USD 2.21 billion with 386 deals in 2021.

## Top Investors in MENA Markets - 2021

**Flat6Labs**
**59 Deals**
Egypt

**500 Global**
**35 Deals**
USA

**OQAL**
**28 Deals**
KSA

**Wamda**
**23 Deals**
UAE

**Global Ventures**
**17 Deals**
UAE

**Impact46**
**17 Deals**
KSA

**Wa'ed**
**16 Deals**
KSA

**Vision Ventures**
**16 Deals**
KSA

**VentureSouq**
**15 Deals**
UAE

## Investments raised by Startups in MENA

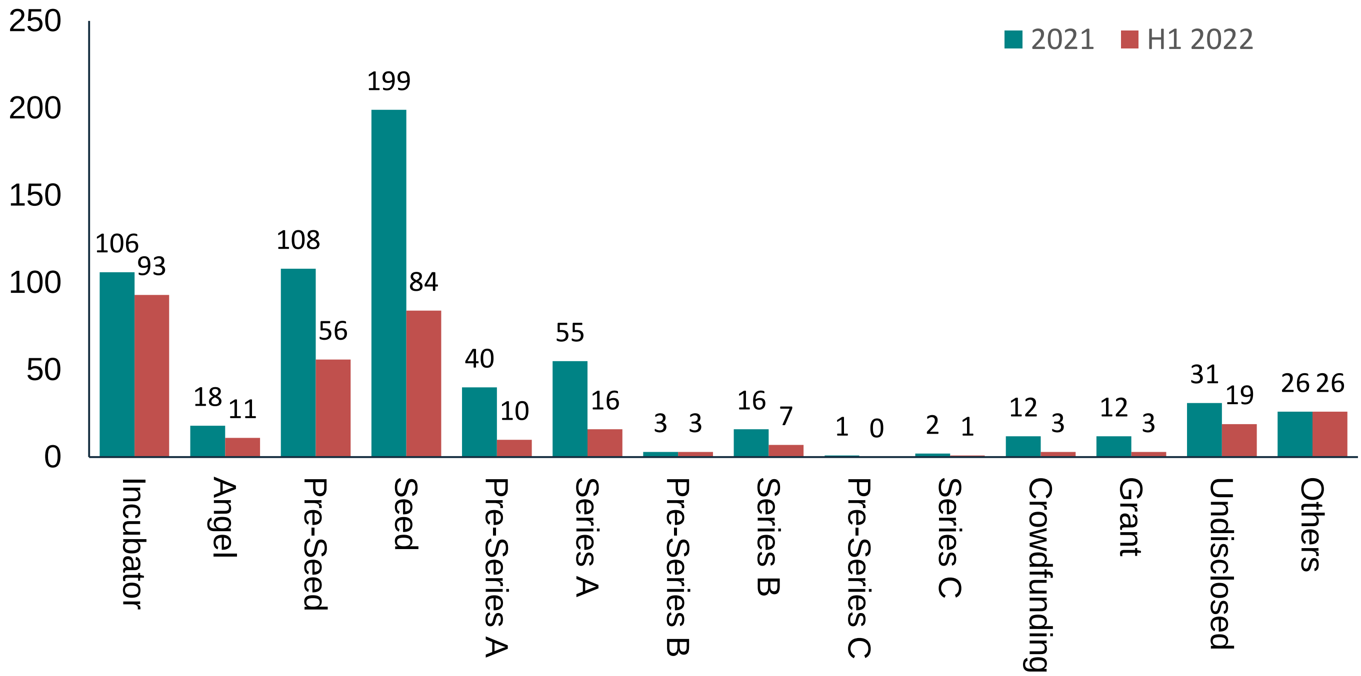
**2021**

US **$2.87bn** raised from 639 deals

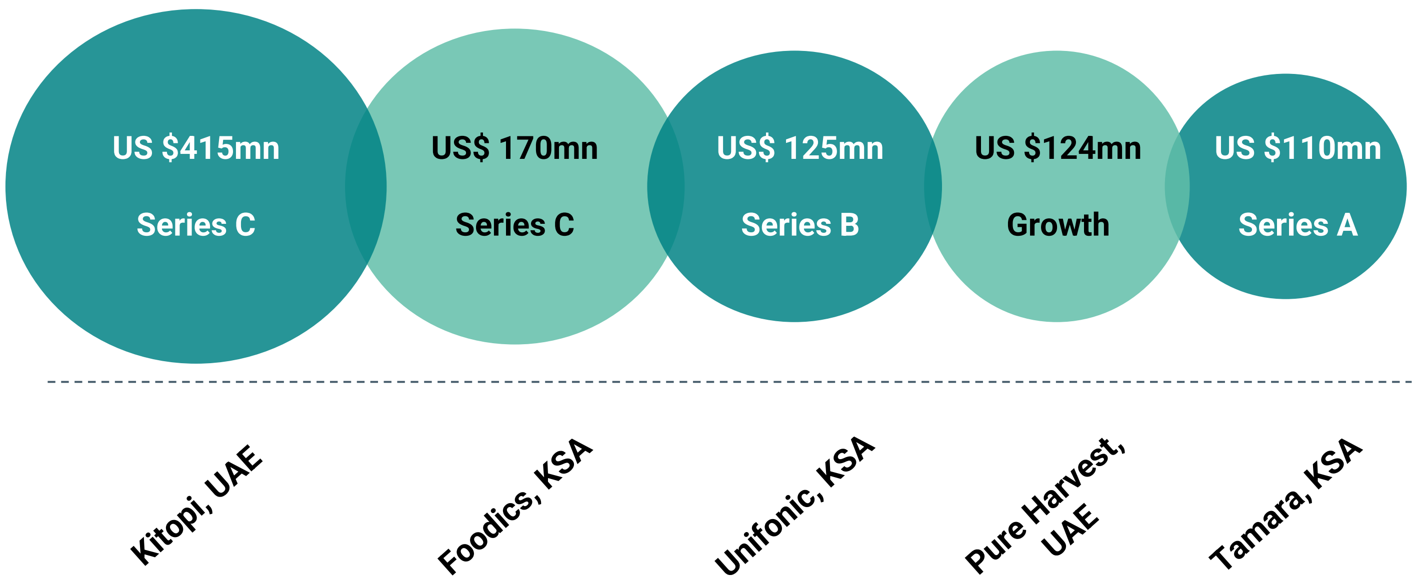
**H1 2022**

US **$1.73bn** raised from 354 deals

## Number of Deals by Funding Stage in MENA




## Top 5 biggest Rounds in the GCC (2021- H1 22)



# *Thank You*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