Financing options for startups and scaleups:

a brief overview by LXA for investors + founders

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1. Equity

in short: funds in return for an equity stake

characteristics: (1) no obligation to repay (2) no financial burden on the venture (3) genuine ownership, including profit sharing + decision power

good to know: (1) valuation of the startup or scaleup is not an exact science, may be a challenge for founders and investors to agree upon (2) equity fundraising process takes 2 – 3 months on average (3) long-term relationship between founders, venture and investors

2. SAFE (simple agreement for future equity)

in short: funds in return for a right on a future equity stake in the capital of the venture

characteristics : (1) hybrid instrument (both equity + debt) (2) no obligation to repay (with certain exceptions) (3) stepping stone for a future equity financing round

good to know: (1) often used by accelerators and incubators (2) simple + quick process

3. Convertible loan

in short: funds in return for a loan, which loan may be converted into an equity stake in the capital of the startup or scaleup

characteristics: (1) debt (unless converted) (2) obligation to repay the initial amount increased with interest (unless converted), (3) stepping stone for a future equity financing round

good to know: (1) often used to avoid complex and time-consuming valuation discussions (2) simple + quick process (3) terms may impact investability

4. Revenue based financing

in short: funds in return for a loan repaid on the basis of revenues

characteristics: (1) debt, (2) obligation to repay (3) amount to be repaid dependent on revenues (max 1.5 - 3 times the original investment amount)

good to know: (1) often used by more mature scaleups (2) relatively quick return on investment (3) temporary relationship between founders, ventures and investors

5. Crowdfunding

in short: funds in return for pre-sales, equity or debt

characteristics: (1) funds from larger groups (2) standardized terms and conditions

good to know: (1) used by consumer focused ventures, also as a marketing tool (2) more and more popular due to tech developments (and development of blockchain in particular) (3) attracting funds from the crowd may be regulated