BBVA Open Innovation

Practical guide to boost your startup: keys ways to attract financing

You've launched a brilliant idea, assembled the team you dreamed of and found the tools that have helped you create your own startup.

However, there is another pending task to make your dream come true: obtaining financing to water your business and get the seed to grow and the project to flourish.

Do you want to know what tools and strategies will ensure the continuity of your project? **Browse our investment guide for emerging companies!**

1

What are the key terms you need to know?

Find out what carried interest is, how to calculate dilution, how to prepare an investor deck and other concepts of interest.

2

What financing options are available to you?

Find the players you can turn to for the cash injection you need.

3

How can you attract investors?

Learn about the main factors to consider when raising funds.

01. Brief investment dictionary

There is a **whole summary of terms** related to startup financing and investment. Knowing some of the most important ones can help you better prepare for your business venture.

Break-even point. The break-even point is the point at which the startup's **revenues are balanced by fixed and variable costs.** From this point on, profits begin being generated.

Cap table. A document, usually in spreadsheet format, that provides information on the share capital structure of a company: investors, shareholdings, percentage of ownership, date of investment and valuation of the different rounds. It allows you to analyse and **forecast the impact of financing rounds** on share ownership.

Carried interest. Profit sharing or **additional remuneration earned** by venture capital managers for the success of their management.

Dealflow. The process by which professional investors **take advantage of investment opportunities,** evaluate them and close them. The dealflow is analysed from the quantitative and qualitative perspective: the investment fund evaluates the investment possibilities it receives and studies their quality exhaustively.

Dilution. Decrease in the shareholding percentage (i.e. loss of part of the company's ownership) that occurs after a capital increase. This occurs when some of the old partners make a new contribution or when new shareholders enter the company and **the percentage of shares of those who have not participated in a financing round decreases.** In other words, the share of the equity pie of investors who have not participated in the company's round is reduced, as other investors acquire new shares. To avoid the effect of dilution and losing some of their control, these investors must purchase a proportional amount of shares with each capital increase.

Dead equity. Shareholdings of the management team or employees who are no longer part of the company and **therefore no longer make decisions about the company.** If there is too much dead equity, the cap table will not be balanced. To avoid this, one can resort to vesting, a mechanism that restricts the sale of shares to ensure the permanence of the co-founders, generally.

Due diligence. Audit of a company's financial records to **verify that there are no risks due to its activity,** carried out by external consultants.

Investor deck. Cover letter of the startup dedicated to attracting the attention of investors. The document, consisting of about ten slides, **contains information on the company's proposed solution,** business model, product, team and financial data.

Partners' agreement. Agreement signed by the partners of a startup to set the rules that regulate the internal relations of a company and **help avoid possible conflicts.** It takes into consideration aspects such as the governance of the company, the entry and exit of partners, the functions of the partners and non-compete or confidentiality clauses, among others. It is a central document at the time of incorporation of a company as well as when new partners enter.

Term sheet. A non-binding document that an investor sends to a startup, stating its interest in participating in the startup, as well as the conditions for doing so. It serves as a **starting point for negotiations between the company and investors.**

02. Startup funding avenues

Having the necessary funds is key for your startup to grow.

There are many different ways to obtain financing, and which one you choose depends on the stage of growth the company is in and the needs of the project.

Remember. The capital required in each financing round is higher as the startup grows (seed, Series A, Series B, etc.).

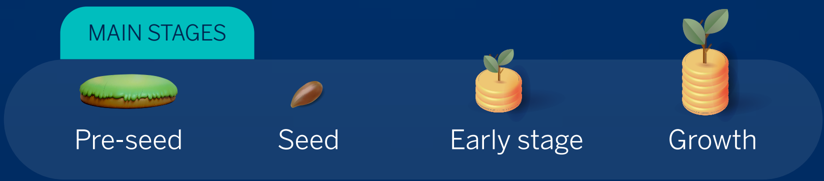
02.1 Non-professional and small investors

Family, fools and friends

Literally, family, fools and friends: the triad refers to the closest circle to turn to for the first steps of the startup.

Bootstrapping

The process by which a startup grows without using external financing: it invests the funds it already has available and reinvests the income it obtains in the business. The main advantages are the maintenance of control of the company, the lower risk of not having to face a debt and the optimisation of resources. However, this model is not applicable to all startups.



Crowdfunding

Financing model where small investors make small contributions to start a business in exchange for rewards (e.g. exclusive access to the solution and product).

EXAMPLES:

INDIEGOGO. gofundme KICKSTARTER

Equity crowdfunding

A method whereby small investors acquire shares in the company in which they invest. Unlike crowdfunding, they become owners of the equity share in the company and can earn a return on their investment.

EXAMPLES:

seedinvest Capital Cell LA BOLSA SOCIAL Inversion con valores

MAIN STAGES

Pre-seed | Seed | Early stage | Growth

02.2 Professional sources

Business angels

Individual investors who invest their money in emerging companies in exchange for an equity share. Generally, they serve as mentors by putting their experience at the service of entrepreneurs.

EXAMPLES:

AEBAN Asociación Española Business Angels

xcala

esadeban

Venture capital

A form of financing where the capital invested in a startup with high growth potential is received in exchange for a share in the company. These investors are usually part of specialised investment firms.

EXAMPLES:

Bonsai Venture Capital

KIBO VENTURES

KASZEK

MAIN STAGES

Pre-seed | Seed | Early stage | Growth

Incubators and accelerators

Organisations that help startups implement and drive their business model by providing services and support.

EXAMPLES:

wayra Telefónica Innovation

BBVA Momentum

START-UPCHILE

Support from public institutions

Some administrations have specific programmes to support startups through subsidies and grants.

EXAMPLES:

CDTI

enisa

CORFO sueña emprende crece

MAIN STAGES

Pre-seed | Seed | Early stage | Growth

The role of banks

Banking institutions are important **allies that support and encourage you to launch your startup.** Their involvement can provide you with both the necessary advice to meet the objectives set and different financing products:

Venture debt. Loan designed so that your shareholding is not significantly reduced. The majority of this credit **is made up of debt that is repaid with interest,** while a small fraction is oriented towards the acquisition of shares in the startup.

Growth loans. Loans intended to **finance growth in the company's most advanced stage.** It appears in series C, D financing rounds or when your startup undertakes investment projects to expand into new markets.

Capital lines. Financing instrument that allows venture capital **to increase liquidity** and accelerate the investment process in your startup. It serves as a guarantee of capital commitments for the fund's partners.

BBVA Spark, the bank's new business unit dedicated to promoting high-growth companies, brings together these types of products so that your startup can develop with the financial backing and appropriate guidance of specialised bankers.

03. Capture investment

Attracting financing is a challenge. To achieve this, consider some of the **factors** that investors take into account when **analysing opportunities:**

Equipment. Gathering professionals who stand out for their **talent** from the beginning is key to generating the necessary confidence and getting investors to get behind an idea.

Market. Analysing the product market fit, that is, **adjusting the product to the needs of the market,** is essential for the project to be successful and get the boost it needs.

Timing. Be in the right place at the right time. Identifying **the ideal period to launch** a product or service will help attract customers and investors.

Technology. One of the main assets to take advantage of when attracting investment is technological muscle. Therefore, the opportunities of the IoT, APIs, the metaverse or artificial intelligence **should be analysed and their advantages fully exploited** to differentiate the product or solution. Technology is not an accessory element, it is a pillar that nurtures and enhances the value of your startup from every angle.

Regulation. It is advisable to know the **specific regulations** of the market where the solution will be launched in order to fine-tune the project.

Regulation.

In **Spain,** the 'startup law', approved by the Congress of Deputies (Spanish Parliament), establishes benefits for entrepreneurs (administrative flexibility, tax advantages or testing environments to innovate), professionals (favourable treatment of stock options and visas for digital nomads) and investors (such as facilities for non-residents, tax deductions and a favourable regime for carried interest with exemptions of up to 50%).

The regulations must now be processed in the Senate and are expected to come into force in January 2023.

In **Latin America,** many countries have created frameworks to protect and promote their startup fabric. Mexico was a pioneer in passing a financial innovation law, while Colombia, Argentina and Chile have enacted new regulations that favour the creation of emerging companies.

The nutrients to make your startup flourish

Creating a solid project and having the tools to attract investors is essential **to boost a startup** and take your company to the next level.

Your **ideas, technology** and **investment** will help your project grow to reach innovation heaven.

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Sources: IEBS, Investopedia, Lanzadera, BBVA, Angels Capital, Deloitte, PitchBook, Startupeable, Delvy, Crunchbase and DealRoom.