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ALTERNATIVE FINANCING

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DESCRIPTION

- **Alternative financing refers to non-traditional sources of funding that have emerged as alternatives to traditional loans and equity investments, providing innovative ways for businesses to raise capital.**
- **Alternative financing can be particularly beneficial for startups and small businesses that may face challenges in accessing traditional financing due to limited credit history, lack of collateral, or unique business models.**
- **For women+ or BIPOC founders, they can also be an alternative to investment ecosystems that have historically failed to equitably fund underestimated groups.**
- **While there are several types of financing that fit into this category, two of the most widely used by emerging companies looking for capital to grow are:**
 - **Revenue-Based Financing (RBF):** Also known as revenue-sharing or revenue-based lending, is an alternative form of financing where a company receives capital from an investor in exchange for a percentage of its future revenues. Instead of taking an ownership stake in the company, as in traditional equity financing, the investor receives a portion of the company's ongoing revenue until a predetermined repayment cap or multiple is reached.
 - **Crowdfunding:** There are three primary types of crowdfunding, **Rewards-Based** (giving money to a project or company in exchange for products/gifts or as a donation, i.e. Kickstarter or iFundWomen), **Equity Crowdfunding** (contributors actually receive equity in a company in exchange for their capital) and **Peer-Lending** (similar to equity, but giving loans instead of making equity investments).

HOW TO KNOW YOUR BUSINESS IS A FIT

This is a broad category and includes a number of different types of financing options, each with its own factors that will affect a business' eligibility. But in general:

- **Rewards Crowdfunding:** Companies with a product and community of supporters that they want to turn into early customers and/or champions.
- **Equity Crowdfunding:**
 - Companies that are in market and have or are on track to hit \$1M in revenue **or** companies that have a clear plan to scale and already have a community of supporters.
 - Companies with great storytelling abilities about their untapped market, unique advantage over competitors, realistic projections, etc.
 - Founder who are looking to both raise money and bring in their supporters as equity holders and turn potential customers into both investors and evangelists of your company going forward.

HOW TO KNOW YOUR BUSINESS IS A FIT (cont.)



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- **Revenue-Based Financing:**

Companies that are looking for flexible and more founder-friendly capital and which have scalable business models, a track record of operating history (even if it's short!) and are generating consistent revenue (typically a minimum of \$150K in Annual Recurring Revenue) are often a good fit for revenue-based financing, especially if they're asset-lite and, thus, not a good fit for traditional debt. This is also a good option for companies that are hesitant to bring in outside capital due to concerns regarding dilution or potential loss of control over time, or who are trying to bridge equity financings or down-rounds.

KEY TAKEAWAYS

- No matter the type of financing, make sure you understand the true cost. For Revenue Based Financing, this will be the total amount that you pay your investor back on top of the initial amount you receive. For Equity Crowdfunding, this will be reflected in the total amount of dilution that occurs as a result of this raise, which is based on your company's valuation and the total amount of capital you decide to bring in.
- These are options that can be great to **supplement** more traditional financing options. Maybe you've already done an equity raise from angel investors or VCs, but you can lean into RBF as a way to bridge to your next round, or to take on some additional capital without the dilutive impact. Or maybe you decide to raise capital simultaneously through equity crowdfunding and from traditional VCs to diversify your funding sources and access a broader pool of investors.
- These financing options can also be great **alternatives** for companies that wouldn't otherwise be a fit for traditional loans or doing an equity raise from VCs. Maybe your balance sheet is too asset-lite, or you're worried about loss of control and decide to pursue RBF. Or maybe you're in a non-traditional industry where there is not much VC support, but lots of community interest that you can leverage through equity crowdfunding.
- Equity crowdfunding is also expanding the possibilities of WHO can invest! Because you can invest as little as \$50, just about anyone can participate! So this can be a great way to open access to investment opportunities for those who traditionally have been excluded from equity investing, and, as a result, have a more inclusive and diverse pool of investors on your cap table (a document that shows who has ownership in your company).

RESOURCES

How-Tos & Overviews

- **Business News Daily:** Tips on using revenue-based financing to grow your business.
- **Capchase:** Guide to revenue based financing for founders.
- **Flow Capital:** The Founder's Guide to Revenue-Based Financing E-Book.
- **Hello Alice:** Workshops and 1:1 coaching on how to grow and improve your business.
- **iFundWomen:** Rewards Crowdfunding e-course, tools, and campaign guide.
- **Sage Growth Capital:** Webinars on RBF, as well as links to additional readings and resources.
- **Tory Burch Foundation:** Information hub with alternative financing overviews and resources.
- **Zebras Unite:** Provides information and resources to help entrepreneurs navigate the alternative capital landscape.

Providers & Platforms

- ★ **Decathlon Capital:** The largest revenue-based investor in the US.
- **Bank of America's Access to Capital Directory:** A searchable database of funding options for women-owned businesses, including equity, various types of debt, crowdfunding and grants.
- **Capchase:** Revenue-based financing for SaaS companies.
- **Flow Capital:** Opportunity to raise \$1M- \$7M in revenue-based and SaaS financing.
- **Fundable:** Equity, debt and rewards based crowdfunding platform.
- **Hum:** AI-powered funding platform that connects companies with investors and lenders, and makes data-driven recommendations on the best financing options for your business based on current financials and long term goals.
- **IndieGoGo:** Crowdfunding platform that allows you to raise funds even beyond a single campaign through a tool called InDemand.
- **Mainvest:** Investment marketplace that connects small, local businesses with investors in their community. Their revenue share model allows for flexibility in repayments, as they are tied to monthly income.
- **Republic:** A crowdfunding platform that allows startups to raise equity or debt capital.
- **Sage Growth Capital:** Woman-led RBF fund.

- ★ **Utah-based Resources** / For LIVE LINKS, visit www.shemoney.com/fundingresources

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