STARTUP FUNDING CYCLE & VALUATION PARAMETERS

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What is a Startup?

STARTUP

A startup is a newly established business venture founded by entrepreneurs to develop a unique product or service and bring it to market. These entities typically aim to address gaps in the market, often operating under conditions of high uncertainty and seeking scalable business models.

Regulations also define startup to give specific incentives

"The secret to getting ahead is getting started." – Mark Twain

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EVOLUTION OF STARTUPS

The Evolution of Startups: A Journey Through Time

❑ **Early Foundations: Proto-Startups & Trade Enterprises**

- Entrepreneurship dates back centuries
- Example: East India Company (1602) – early model of innovation + risk-taking

❑ **20th Century: Birth of the Modern Startup**

- Post-WWII innovation boom in the U.S.
- Rise of Silicon Valley (1970s–80s): Apple, Microsoft
- Tech culture + garage-born giants

❑ **21st Century: Globalization & Ecosystem Growth**

- Worldwide startup hubs emerge
- Ecosystem phases (Startup Genome): **Activation → Globalization → Expansion → Integration**

❑ **Present Day: Tech Integration & Diversity**

- Startups leverage AI, Biotech, Blockchain
- Access to tech & venture capital fuels innovation

Diverse, global entrepreneurial landscape

❖ **From 1602 to Today: Startups Shape the Future Through Innovation, Risk, and Technology**

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CURRENT SITUATION OF STARTUPS IN THE WORLD

Startup ecosystem has experienced significant fluctuations in recent years, marked by both a decline in new startup formations and a high rate of failures among existing ventures.

Global startup trends in recent years have shown a significant increase in both the formation and failure rates of new ventures.

Global Landscape: Approximately 50 million startups are launched annually worldwide, averaging about 137,000 new startups each day Country-wise Distribution in past while 2021 onwards downside experienced:

- United States: Leads with over 82,000 startups.
- India: Follows with approximately 17,438 startups.
- United Kingdom: Around 7,500 startups
- Canada: Approximately 4,055 startups
- Australia: About 3,008 startups

Global Failure Rate: Approximately 80% to 90% of startups fail, with about 10% failing within the first year

Failure Rates by Country:

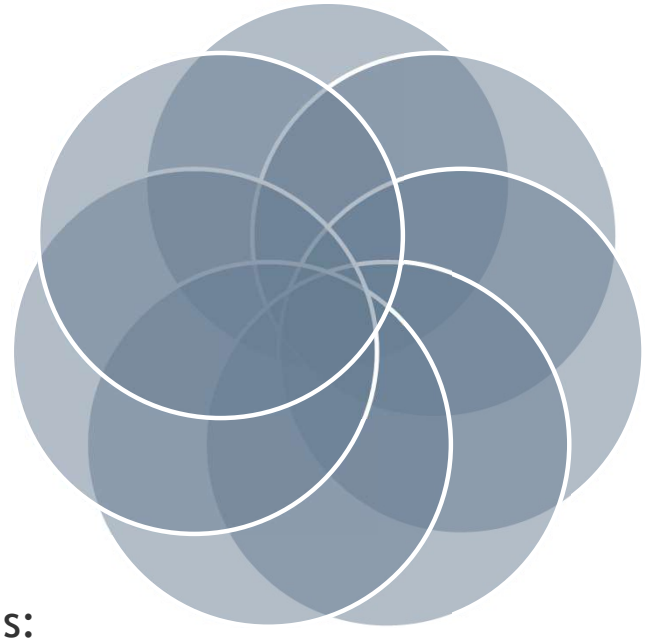
- United States: 80%+
- Canada: 80%+
- United Kingdom: 70%+
- France: 80% +
- Germany: 75%+
- Australia: 75%+

INDIAN TRENDS

Startup Launch Decline in 2024

Decline in startup formation started around **2021**.

65% drop in new tech startups in India compared to 2023.



Ongoing Downward Trend

Only **~2,300 startups** launched by October 2024 vs. **6,618 in 2023**.

Key reasons: **Investor caution, economic uncertainties, lack of innovation.**

Steepest decline in the past decade.

Summary of Indian Key Statistics

Metric	Value
New startups in 2024	~2,300
Decline from 2023	~65%
Startup failure rate (within 5 years)	~90%
Startup closures in 2024	5,000+

These figures highlight the volatility and challenges within India's startup landscape, emphasizing the need for robust support systems, innovative approaches, and sustainable business models to foster long-term success.

SOME TERMS TO REMEMBER

- MVP (Minimum Viable Product)
  → The simplest version of a product that solves a core problem, built to test and learn quickly with minimal resources.
- Product-Market Fit
  → The point when a product satisfies strong market demand—customers love it, use it, and recommend it.
- Burn Rate
  → The rate at which a startup is spending money. Crucial for managing cash flow and survival.
- Runway
  → The amount of time a startup can operate before it runs out of cash, based on the burn rate.
- Unicorn
  → A startup valued at over $1 billion. Represents high growth and investor interest.

LIFECYCLE OF A STARTUP

Pre-Seed Stage	• The earliest phase, often just an idea or prototype.
Seed Stage	· First "official" funding round to grow MVP into a viable product.
Series A	• Scaling the business model that works.
Series B	• Expanding market reach and refining the product
Series C	• Hyper-growth and diversification
Series D	• Strong scaling, or correcting course
Series E	• Consolidation or strategic growth
Series F	• Pre-IPO funding or expansion
Series G	• Usually rare – might indicate IPO delays, restructuring, or massive growth goals

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❑ Pre seeding stage

- **Objective**: Validate the business idea and develop a minimum viable product (MVP).
- **Funding Sources**: Founders, friends and family, angel investors, and startup accelerators.
- **Valuation Methods**:
  - **Berkus Method**: Assigns monetary value to key success factors like the idea, prototype, quality of management, strategic relationships, and product rollout or sales.
  - **Scorecard Method**: Compares the startup to similar ventures, adjusting the average valuation based on factors like team, market size, product, and competition.
  - **Cost-to-Duplicate Approach**: Estimates the cost to replicate the startup's assets and development efforts.
  - Back of the envelope and negotiations

❑ Seed stage

- **Objective**: Develop the product further, conduct market research, and achieve product-market fit.
- **Funding Sources**: Angel investors, seed venture capital firms, and crowdfunding platforms.
- **Valuation Methods**:
  - **Comparable Company Analysis**: Assesses valuation based on metrics from similar companies.
  - **Risk Factor Summation Method**: Starts with a base valuation and adjusts it based on 12 risk factors, such as management, legislation, manufacturing, funding, competition, technology, and others.
  - **Venture Capital Method**: Estimates the company's exit value and discounts it back to present value considering the expected return on investment.
  - Back of the envelope and negotiations

❑ Series A

- **Objective**: Scale the business model, optimize product offerings, and expand the customer base.
- **Funding Sources**: Venture capital firms and strategic investors.
- **Valuation Methods**:
  - **Discounted Cash Flow (DCF) Analysis**: Projects future cash flows and discounts them to present value using a discount rate.
  - **Market Multiple Approach**: Applies industry-specific multiples (like EV/Revenue) to the company's financial metrics.

❑ Series B

- **Objective**: Expand market reach, grow the team, and enhance operational capabilities.
- **Funding Sources**: Late-stage venture capital firms and private equity investors.
- **Valuation Methods**:
  - **Market Multiple Approach**: Continues to be relevant, with more emphasis on revenue and EBITDA multiples.
  - **Venture Capital Method**: Still applicable, focusing on scaling metrics and exit strategies.

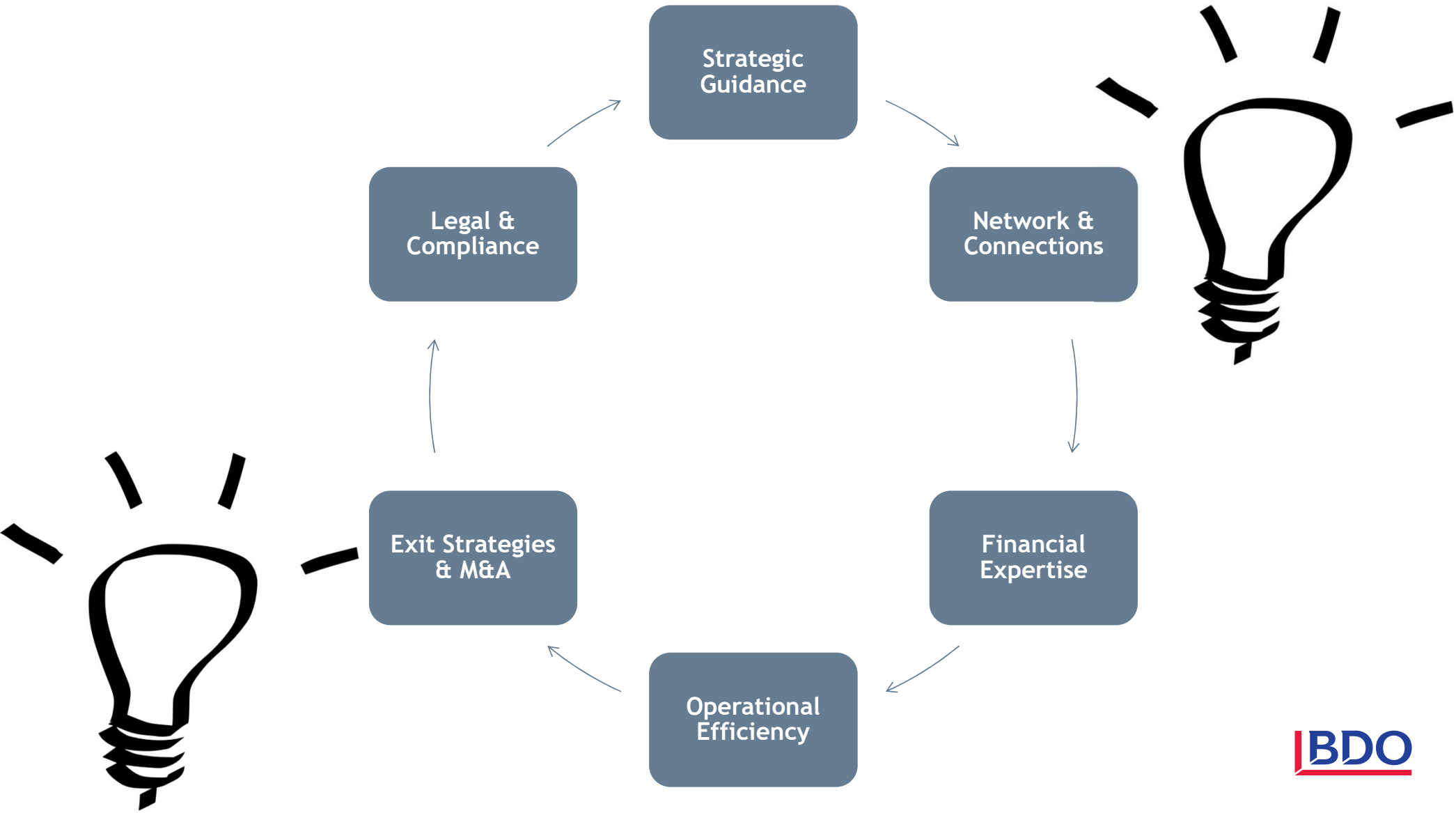
❑ Series C

- **Objective**: Enter new markets, develop new products, and prepare for potential IPO or acquisition.
- **Funding Sources**: Hedge funds, investment banks, and large secondary market groups.
- **Valuation Methods**:
  - **Comparable Company Analysis**: Benchmarking against publicly traded companies becomes more prevalent.
  - **Discounted Cash Flow (DCF) Analysis**: More accurate with established financial histories.

❑ Series D to G

- **Objective**: Further expansion, address new opportunities, or rectify underperformance.
- **Funding Sources**: Late-stage investors, private equity firms, and corporate investors.
- **Valuation Methods**:
  - **Dilution:** Critical for understanding ownership dilution and investment impact.
  - **Advanced DCF and Market Comparables**: Utilized with greater precision due to robust financial data.

How Business professionals can be helpful for Startups


Strategic Guidance
Network & Connections
Financial Expertise
Operational Efficiency
Exit Strategies & M&A
Legal & Compliance

CONCLUSION

The startup journey is fast-paced and high-risk, demanding clear strategy, strong execution, and smart funding decisions. Understanding each funding stage and valuation method is key to sustainable growth.

Despite high failure rates, with the right support, innovation, and resilience, startups can scale, succeed, and even become unicorns. A solid foundation and expert guidance make all the difference.

Thank you!