

# The Rise of Revenue-Based Financing



MAY 2019

# Executive Summary

Revenue-based financing (RBF) is the leading alternative to equity financing for startups. This is the first comprehensive report about the RBF industry and its growth.

At Lighter Capital, we have financed over \$150MM in more than 550 rounds of revenue-based financing to over 300 startups. We believe sharing our insights will educate entrepreneurs, early-stage investors, startup board members and industry observers about this emerging form of financing.

Startup financing is undergoing significant changes. Angels and early-stage VCs are funding fewer companies while alternative funding models are rapidly emerging. RBF is increasingly popular, providing long-term growth capital to hundreds of startups each year.

Changes in the landscape of startup financing are driven, in part, by how startups are built. Historically, it took years for a new product to start delivering revenue with teams of people spending years to build, launch and sell a software product.

Because of better software development environments and cloud hosting services, today's startup founders often land their first paying customers within months of kicking off product development. This means revenue and expenses can ramp in unison.

Reaching revenue earlier in the product life cycle gives entrepreneurs the option to bootstrap, raise equity or pursue alternative funding. Although it is still rare for tech companies to IPO without raising venture capital, it is also increasingly common for companies to reach millions in annual revenue without VC financing.

Entrepreneurs are increasingly using RBF to delay or forgo equity rounds. Yet being pro-RBF does not mean being anti-VC or anti-angel. Many companies utilize a blend of traditional and alternative financing, reducing ownership dilution and maximizing control for founders and early equity investors.

This report is intended to educate entrepreneurs, early-stage investors, startup board members and industry observers about this emerging form of financing for startups by covering the following topics:

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# Revenue-Based Financing:

## The Structure

Revenue-based financing is an alternative funding model that mixes some aspects of debt and equity. Most RBF is technically structured as a loan. However, RBF investors' returns are tied directly to the startup's performance, which is more like equity.

### HERE ARE RBF'S TYPICAL CHARACTERISTICS:

- Principal amount fully funded at closing
- Structured as a loan
- Monthly payments equal a set percentage of monthly revenue (typically 1 to 9%)
- Monthly payments continue until a set dollar amount has been paid back, usually 1.3-2.5X the amount of the financing (this multiple is called the "cap")
- At maturity, which is typically 3 to 5 years, any unpaid amount of the cap is due

### FOR EXAMPLE, AN RBF LOAN MAY BE STRUCTURED AS FOLLOWS:

- \$500K loan funded on January 1, 2019
- 36 month term
- 1.4X cap (\$700K in total payments, including \$500K in principal and \$200K in interest)
- Monthly payments equal 5% of net customer payments

### THE RESULT IS ENTREPRENEUR-FRIENDLY DEBT CAPITAL:

- Similar to equity, RBF investors have an incentive to help the company grow, because faster growth means faster repayment and a higher Internal Rate of Return (IRR)
- Similar to debt, there's no dilution to ownership or control, since RBF investors usually do not take any equity or board seats
- Payments are flexible: The company only pays a percentage of customer cash payments, so it doesn't suffer cash crunches and RBF borrowers rarely miss payments

Described above are the basics of revenue-based financing. Each RBF investor has different features, such as early payoff provisions, minimum return requirements, royalty tiers, warrants, success fees, the ability to receive more capital from the same provider, and much more. (For more information on this, see: ["Chapter 6: How to Evaluate an RBF Offer"](#))

# Comparing RBF & Equity / VC Financing

A great number of startups rely on bootstrapping or funding from friends and family to get their ideas up and running pre-revenue. [Seed money from angel investors](#)<sup>1</sup> can provide early sums of funding along with operating expertise and consulting.

However, the next stage of a business's growth trajectory—launch and initial traction—is the most exciting yet challenging phase. As founders grow their businesses and have a product or service with a steady revenue stream, additional methods of startup financing become available. These options include venture capital, angel investors, and revenue-based financing.

## Venture Capital: Pros & Cons

For startup entrepreneurs seeking financing, venture capital historically had all the mindshare. Most pros and cons of raising venture capital are well known:

### PROS

- 1. Capital.** A large capital investment, especially relative to the size of the company.
- 2. Connections.** Contacts with industry experts, customers, partners and employees.
- 3. Guidance.** To help grow the company.

### CONS

- 1. Ownership.** Founders must sell meaningful equity ownership in the business, typically 20-30% per round of financing. If a company is highly successful, the cost of VC funding may be equivalent to paying well over [100% annual interest](#)<sup>2</sup>.
- 2. Control.** Founders will give up a considerable amount of control, since VCs customarily are given significant protective provisions, and can even be removed from the company.

**3. Hamster Wheel.** Once you raise VC, it's generally expected you will push hard for growth and raise [round after round](#)<sup>3</sup> of VC financing.

**4. Distraction.** Founders typically [spend months raising VC](#)<sup>4</sup>, detracting from the company's ability to focus on acquiring customers and building products. What's more: very few startups actually ever get VC funding—and that number continues to shrink.

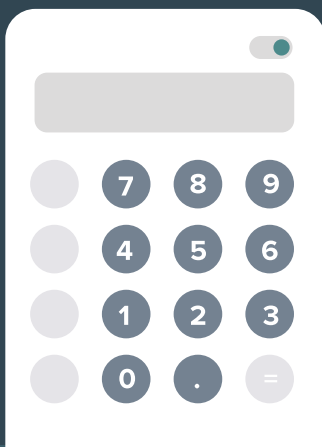
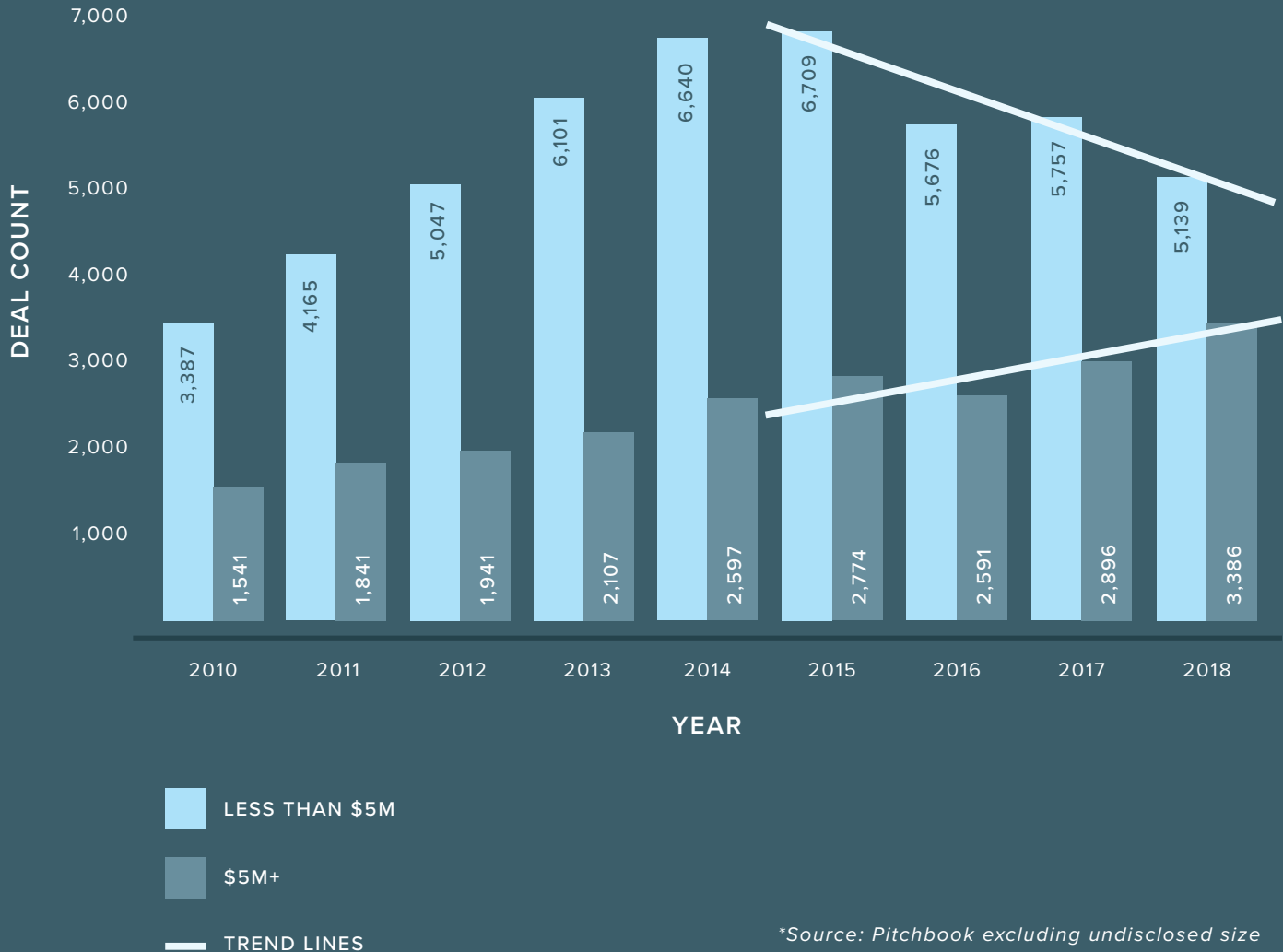
Venture capital may be the only option for certain kinds of startups, such as those with heavy research and development (R&D) spending before reaching meaningful revenue, those trying to capture a winner-take-all market, or those hell-bent on becoming a unicorn.

However, venture capital often becomes a goal in and of itself, even though it is not a good fit for all companies at all times. VCs typically only fund companies with rapid growth and large disruptive potential, since disruptors of industries are often acquired for high valuations.

Interestingly, many entrepreneurs delay raising venture capital, so they can achieve more milestones and get better terms from VCs later on—including a higher valuation (lower dilution) and more retention of control.

Venture capital is analogous to strapping a rocket pack on your back—it's incredibly powerful, but also has a propensity to blow up. Take for example [the tale of FanDuel's original founders](#)<sup>5</sup>, whose company sold for \$465MM, but according to the deal documents, their shares were so diluted that “they [didn't] make any money at all off of the company's sale.” (Though it's unclear what the financial terms were surrounding their departures from the company, and they could have negotiated a pay package.)

## U.S. VC Count\* by Size of Deal



## Cost of Capital Calculator

*This calculator*<sup>6</sup> will help you identify how much value and ownership you would retain raising revenue-based financing compared to equity.

## POSITIONED TO RAISE VENTURE CAPITAL

Lighter Capital customer, Snehal Fulzele, CEO of Cloud Lending, used revenue-based financing to grow his company and get a better valuation before raising venture capital:

“When Lighter Capital cut us a check earlier this year, we had 19 customers—today we are at 45. We brought in not only more clients, but also bigger clients.”

“After we used the funding to grow, we reached out to venture capitalists. When I told Lighter Capital CEO BJ Lackland we were looking for venture capital, he provided his expertise to help us nail down our own strategy. BJ also made introductions to venture capitalists and reviewed some of the term sheets.”

“We closed \$1 million with a couple of venture capitalist firms, including follow-on investors Epic Ventures, who were introduced to us by Lighter Capital.”

Cloud Lending was later acquired by Q2 Holdings, Inc., a leading provider of digital banking solutions for financial institutions, announced on August 8, 2018.



“If your company is just starting to see revenue and you’re looking to bring in a couple of people to grow so that you get a better valuation when you raise venture capital, I would recommend revenue-based financing.”

**SNEHAL FULZELE**  
CEO, CLOUD LENDING

## Angel Investors: Pros & Cons

Like VCs, angel investors typically purchase equity in a startup. They often use a [convertible debt structure](#)<sup>7</sup>, but there are usually no payments on this debt and the intention is the debt will convert to equity at a later round of financing (such as an investment led by a VC).

Angel investors come in as many types as there are wealthy individuals in the world—doctors, real estate developers, successful tech entrepreneurs, and more. There are professional angel investors, who spend much of their time making angel investments, and there are angels with little or no experience.

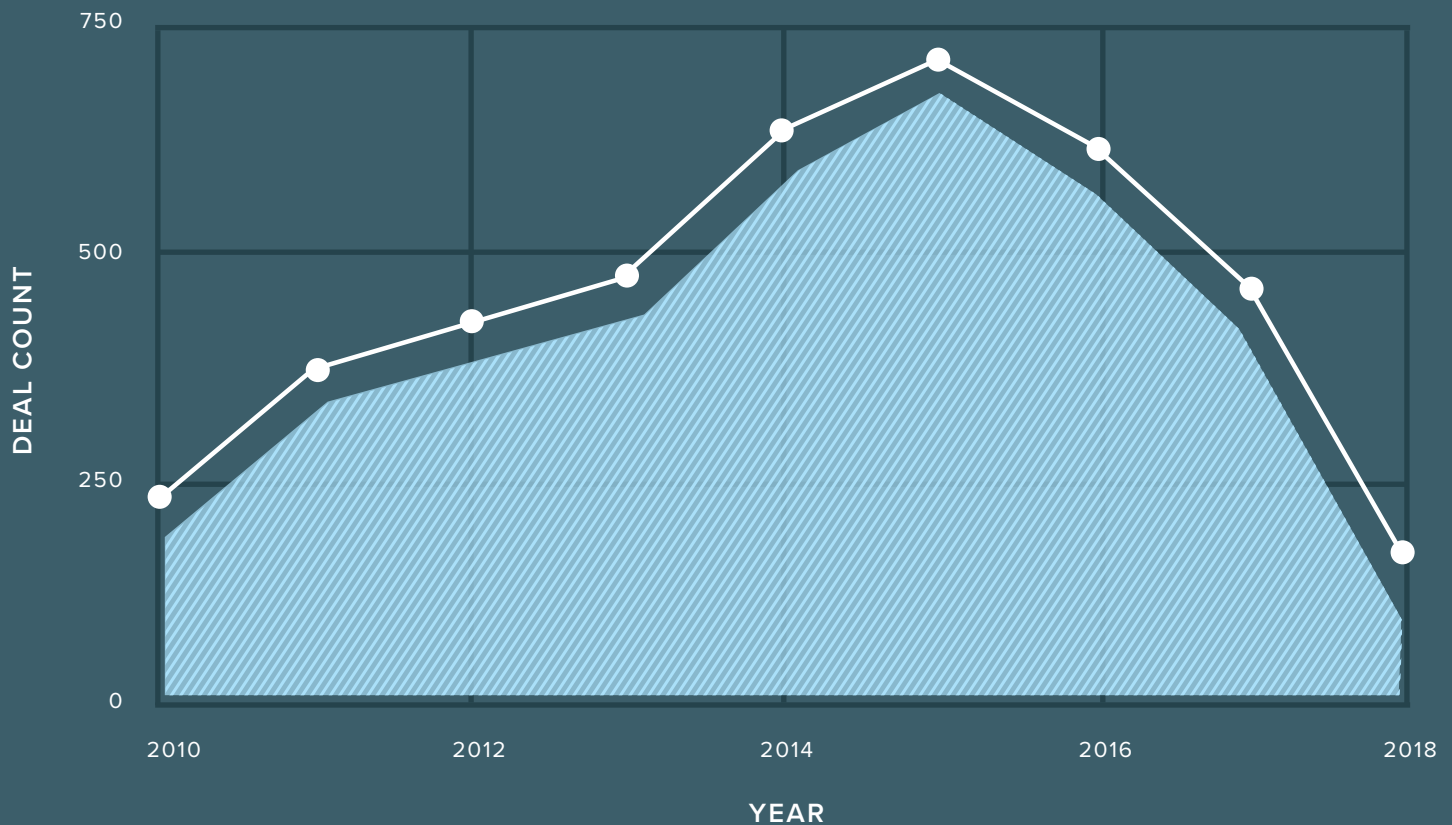
Depending on their backgrounds, angel investors can be hands-on, taking a board seat and providing lots of value to entrepreneurs. Or they can be very hands-off and hard to get a hold of.

The amount of money a startup can raise from angels also varies widely. In some startup tech hubs, such as San Francisco, many angel investors routinely make six-figure and even seven-figure investments. However, most angels invest tens of thousands of dollars, meaning you might need to corral 10 to 20 angels in order to raise \$500K.

Having multiple angel investors can be a blessing or a curse (or both at the same time). Retaining widely distributed ownership effectively means the founders have more control over the company, since no single investor owns enough stock to drive decision-making at the company. Furthermore, it's good to have lots of people in your corner to help you.

The downside of widely distributed ownership is that it can be distracting to keep all the angels informed and aligned with the company's goals. And any one angry angel investor, no matter how small, can make life difficult for an entrepreneur.

## Where Have All The Angels Gone?



\*Source: tomtunguz.com

Unfortunately, while angels are still an important part of the startup ecosystem, Tomasz Tunguz [observed](#)<sup>8</sup> that they represent a shrinking share of investors who will lead a startup's first round of funding. "You're 20X more likely to raise your seed round from an institutional seed than an angel syndicate," noted Tunguz. In fact,

2018 had the fewest number of angel-led financing rounds since before 2010.

While this may be an option for founders fortunate enough to receive angel-led financing rounds, they will likely be giving up more equity every time they go back to the well for money.

# Revenue-Based Financing: Pros & Cons

RBF is an alternative to or can be combined with raising equity from VCs or angels. The RBF model is a good fit for startups that have growth (strong, moderate or slow) and are generating monthly recurring revenue (MRR), or for startup founders who want to retain ownership and control of their business and run it for the long-term.

“Cirrus Identity streamlines access to online services in Higher Ed, and we continue to grow year over year with little churn. But our rate of growth and our target market don’t fit the typical VC profile. Revenue-based financing has been the perfect option for non-dilutive capital to fuel growth. Also, the revenue-based repayment terms are a huge plus for businesses like mine where revenue streams and annual renewal cycles are lumpy.”



**DEDRA CHAMBERLIN**  
**FOUNDER & CEO,**  
**CIRRUS IDENTITY**

## THE BEST ASPECTS OF RBF INCLUDE:

### 1. Less expensive than equity.

If your startup is successful, raising equity from angels or VCs is the most expensive money<sup>6</sup> possible. Early stage investors generally want to realize a 10-20X return on their investment. RBF investors typically target returns

much lower than this, filling the void between equity investors seeking 10X and banks seeking 8-10% returns from interest and fees.

**2. Retain ownership.** Since RBF investors generally don’t take any equity, there’s no

ownership dilution to founders and early equity investors. And when the RBF loan is fully repaid, it's all done and over.

**3. Retain control.** RBF investors generally do not take board seats or put restrictive financial covenants on a company. This means the entrepreneur stays in control with their vision intact.

**4. Alignment toward growth.** Due to the flexible payment structure, RBF investors' returns go up when the startup grows faster. This means both the investor and the entrepreneur are aligned toward growing revenue.

**5. No personal guarantee.** Many bank loans to pre-VC companies require personal guarantees from founders. This puts a borrower's personal assets at risk. RBF investors generally don't require this and see themselves as "betting on the company," as opposed to the borrower's personal ability to put up collateral.

**6. Ease of access to capital.** Experienced RBF lenders can provide funding within several weeks, compared to the [several months](#)<sup>4</sup> it can take to pitch and hopefully receive funding from traditional equity sources. Furthermore, RBF investors do not require companies to have hyper-growth or be highly disruptive to their industries, since they do not require large equity exits.

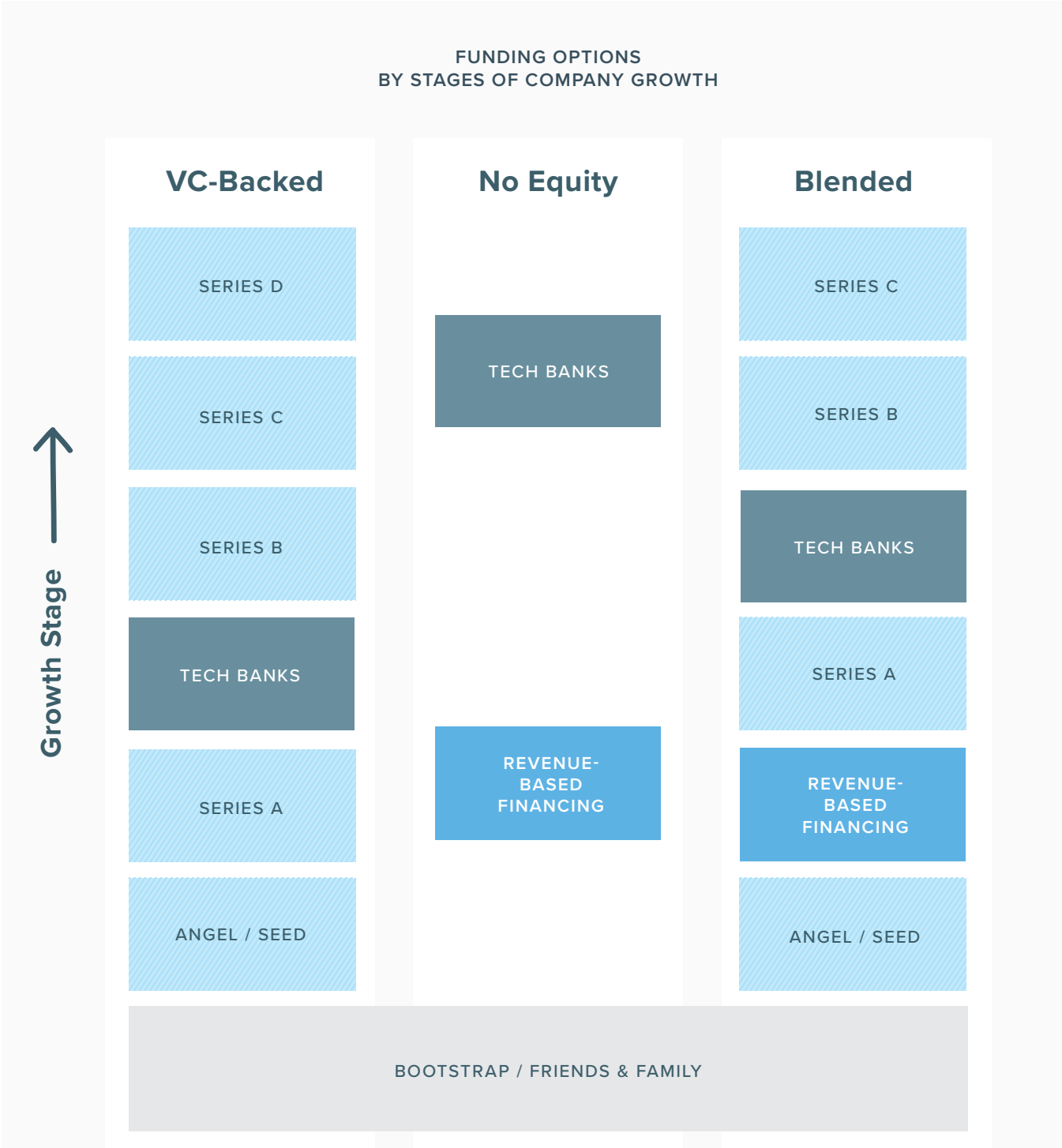
**7. Maintain optionality.** As a startup grows and becomes more established, more traditional forms of financing—bank financing, angel/VC equity—become more attainable. What's important for early stage founders is maintaining options for the future. Common options founders want include:

*a. Raising VC Later:* Not sure if you want to raise VC, since once you do it you'll probably need to raise more and more? Raising an RBF round helps delay raising VC but also isn't a barrier to raising VC later.

*b. Selling the Business:* Not sure if you want to sell the company soon or keep running it long into the future? Raising VC can eliminate a near term exit, since VC investors want large multiples on their investments and may have veto power over a decision to sell the company. RBF places no limitation on the sale of a business—if the loan is repaid, the entrepreneur can do as he or she pleases.

*c. Running the Business Long Term:* VCs and angels need an "exit," usually in the form of a sale of the business, because they own equity. RBF investors do not require a sale of the business, since the loan is repaid over time, enabling entrepreneurs to keep their businesses for as long as they want.

Below is a graph showing three common funding paths for companies, and the stages of growth at which RBF is a good fit.



## THE DOWNSIDES OF RBF INCLUDE:

### 1. Companies must have revenue.

Unfortunately for pre-revenue startups, RBF is generally not a fit. It's hard to make a revenue-based loan against no revenue. For Lighter Capital, companies need to have at least \$15K in monthly recurring revenue. Other RBF investors generally require a least \$150K to \$250K in MRR before they will fund a company.

### 2. RBF lenders cannot provide huge checks.

At times, equity investors will provide a company with little or no revenue up to \$10MM in funding. This doesn't happen with RBF. Generally, RBF investors will not provide capital equal to more than 3 to 4 months' worth of MRR. For example, if you have \$200K in MRR, you can get \$600 to 800K from an RBF investor. Some RBF investors will provide higher multiples of MRR, but this quickly becomes unhealthy. (For more information on this, see: "[Chapter 6: How to Evaluate an RBF Offer: Debt Percentage.](#)")

Some RBF investors will provide additional capital as a startup grows, enabling entrepreneurs to access more and more capital over time. At Lighter Capital, for example, on average we provide two rounds of funding per company and will provide up to \$3MM total. We've provided as many as eight rounds to a company, including one that grew from \$30K in MRR and a \$50K loan to over \$750K in MRR with over \$2MM in RBF funding.

### 3. Regular monthly payments are required.

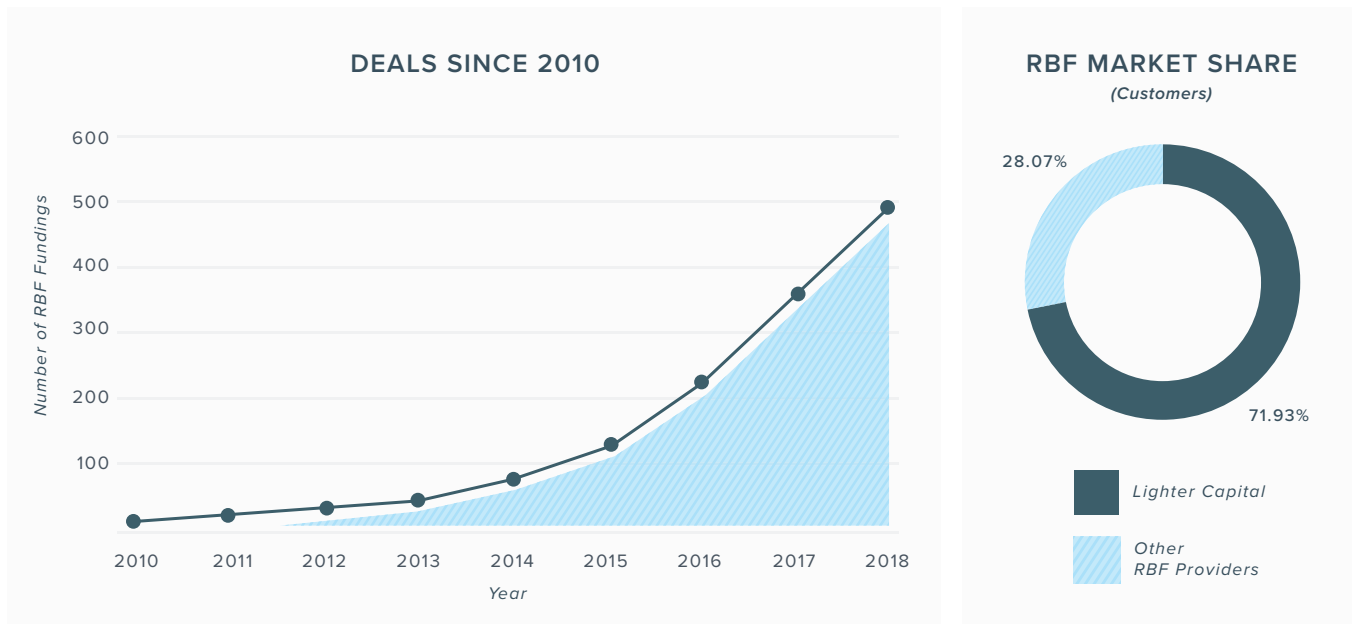
As opposed to equity financing, RBF is a form of debt that requires active repayment. This often occurs when the company is still in a startup phase (not yet cash flow positive). Although the variable payment structure of RBF helps mitigate this, it can still pinch cash. It's therefore critical to only take a healthy amount of RBF and to understand the pay-back from growth. (For more information on mitigating these concerns, see: "[Chapter 6: How to Evaluate an RBF Offer: Repayment Ability.](#)")

# The Emerging RBF Market:

## A Brief History of Revenue-Based Financing

RBF is a relatively new form of funding for tech companies, but it's a structure that's funded entrepreneurs in other industries for over a hundred years. Revenue-share agreements and royalties are very similar to RBF in terms of the economics for the entrepreneur and investor. These structures funded wildcatters searching for oil in the early 20th century, and are currently used extensively in the pharmaceutical, cinema, and music industries. Many movies you watch have been financed by some form of RBF.

RBF was first used to fund tech startups in the 1990s when Arthur Fox launched two funds utilizing the structure. The RBF structure didn't become widely accepted for funding tech startups until the last five years, and there are now several hundred RBF deals funded each year.



Based on the growth of RBF loans since 2010, Lighter Capital represents 71.93% of the market. No other providers we know of represent more than 6% of the RBF market.

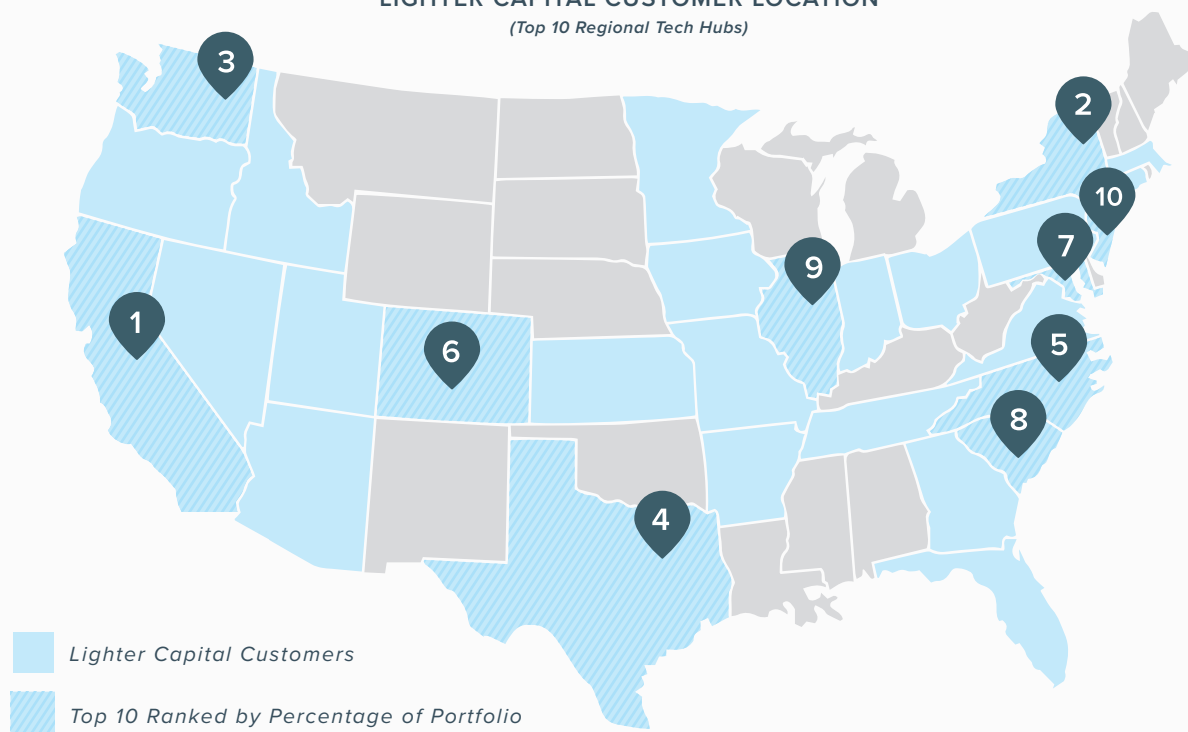
# Which Companies Fit RBF?

RBF is a good funding option for many kinds of startups, from moderate growth to hyper-growth. Companies do not need to be profitable to qualify for RBF—in fact, most companies raising RBF are burning cash. Furthermore, RBF fits companies that have raised VC, plan to raise VC later, or never plan to raise VC.

For example, Lighter Capital has funded companies in 30 states across the country—in startup hubs and less mature startup ecosystems.

*It is very difficult to get detailed data about the entire RBF market. Therefore, for much of this section we have used information about Lighter Capital's funding history as a proxy to show the market. We estimate that Lighter Capital represents over 70% of all RBF deals funded, and so we believe this information is instructive.*

**LIGHTER CAPITAL CUSTOMER LOCATION**  
(Top 10 Regional Tech Hubs)



STATE	CA	NY	WA	TX	NC	CO	MA	SC	IL	NJ
% OF PORTFOLIO	33.23%	9.96%	9.51%	7.26%	4.44%	4.15%	3.75%	3.24%	3.01%	2.90%

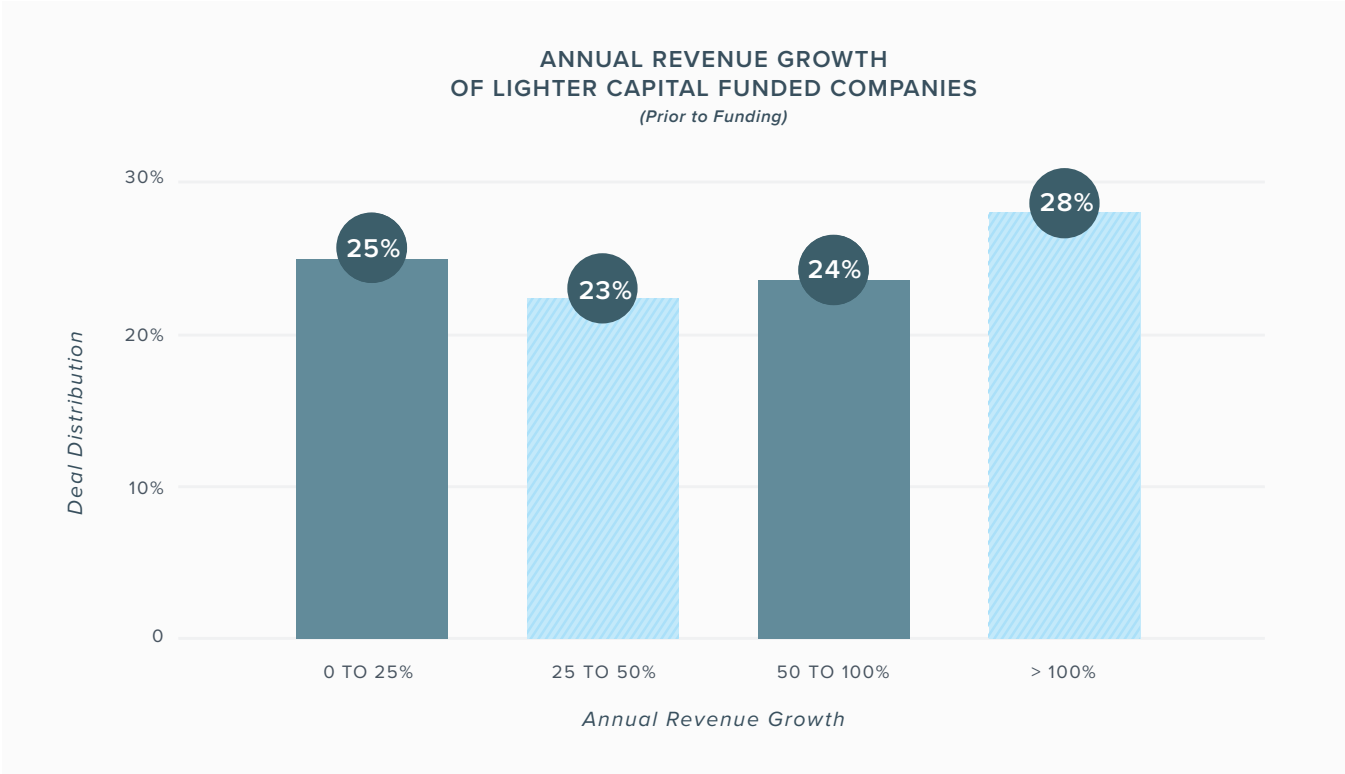
# RBF Fits Startups with Various Growth Rates

RBF works well for hyper-growth, moderate growth and slow growth companies. In contrast, early stage VCs generally seek companies growing at more than 100% per year. This is because VCs need big equity exits in the future to realize solid investment returns, and hyper-growth companies are the most likely to provide big exits. It's "go big or go home."

The difference with RBF is that it works for startups at many levels of growth, because no "equity exit" is required for an RBF investor to receive an appropriate rate of return. The key

for RBF investors is to accurately understand the future growth rate of the startup, and then structure the financing to fit the desired return. For startup founders, this means they can choose to operate their businesses at more controlled growth rates and still secure growth capital; as a result, they have more options.

Lighter Capital's client base reflects this broad array of growth rates, with roughly an equal percentage of companies growing less than 25% per year as over 100% per year.

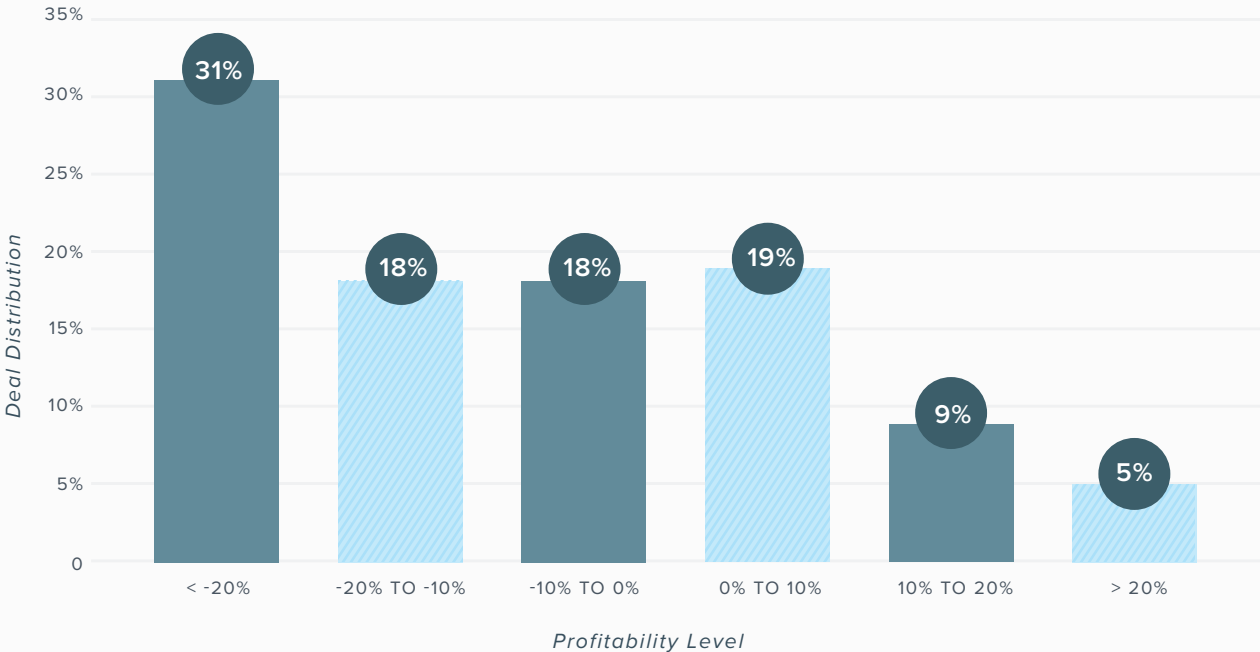


# RBF Fits Companies That Aren't Profitable

Profitability is required for many bank loans and [SBA loans](#)<sup>9</sup>, but it is not required to secure revenue-based financing. RBF investors all have different underwriting standards with respect to profitability, but generally consider a number of factors, including runway and the ability to grow revenue enough to cover the loan payments and operating expenses.

On average, Lighter Capital's customers are not profitable and have an average negative 14% profit margin. Two-thirds of the companies funded are not profitable and even more are burning money each month as growth stretches cash needs. In general, companies that have raised substantial equity funding have higher [burn rates](#)<sup>10</sup> and more liquidity, while bootstrapped companies are more often near breakeven.

LIGHTER CAPITAL DEAL DISTRIBUTION BY PROFITABILITY LEVEL



# RBF Fits Startups That Are Pre-VC, Post-VC & Anti-VC

Most RBF investors are willing to fund companies that have never raised VC. In contrast, traditional venture debt is only available to startups that have raised a seven-figure Series A round from VCs. This means a company must raise a lot of equity money to raise some debt capital.

Since RBF investors will fund companies that are not VC-backed, entrepreneurs can use a

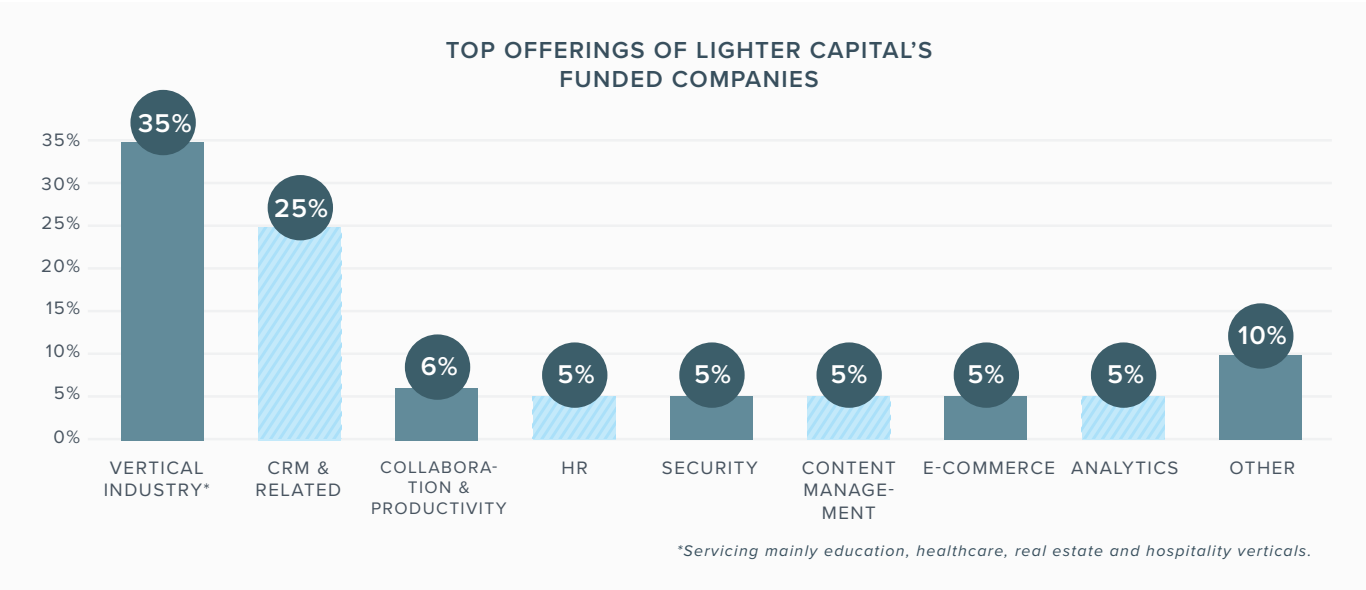
more blended approach to fundraising. For instance, entrepreneurs can utilize RBF alone, or mix it with angel or VC funding to maximize founder retention of ownership and control.

At Lighter Capital, roughly 10% of the companies we fund have raised large amounts of VC prior to our funding. Most companies are either bootstrapped, angel-backed, or have raised smaller amounts of VC.

# RBF Fits Startups with Many Types of Offerings

While Lighter Capital’s focus is on the technology startup sector overall, specifically software-as-a-service (SaaS) businesses, a wide range of tech companies with monthly recurring revenue (MRR) also receive revenue-based financing.

The term “technology company” is very broad; within it, sub-categories seeking financing are as follows:



# Is RBF Safe Debt for Startups?

There's a long-running debate about whether debt is good or bad for startups. After 8 years of funding hundreds of the most promising startups in technology, we know for certain that debt can be great for entrepreneurs in the right circumstances.

What circumstances are best? The following commentary applies to startups that have not (yet) raised large amounts of funding from VCs—or desire a blend of traditional equity and alternative finance—and debt that requires material cash payments (not [convertible debt](#)<sup>11</sup> from angel investors with no cash payments).

Assuming those descriptions apply, startups are in a strong position to benefit from debt capital if the loan is structured well for their financial situation and the lender is trustworthy. In such cases, debt financing can enable entrepreneurs to retain ownership and control while building optionality for better outcomes.

For these reasons, debt financing [contrasts sharply](#)<sup>12</sup> with equity financing, which requires giving investors percentages of ownership

and decision-making authority. Venture investors can even decide to fire the CEO or veto an exit that doesn't net enough profit to meet their standards. An entrepreneur might want to sell for \$30MM if it nets him or her \$10MM, but such a move would likely be vetoed by a VC who is seeking a 10X return.

With debt financing, such decisions are left to those who built the company, as are options about how to grow (and how fast) in anticipation of a potential exit. Furthermore, debt financing maintains the option to raise equity later (at a better valuation).

Lighter Capital has funded numerous companies that have sold for more than \$300MM, but most have sold for between \$4MM to \$40MM. This is a far more typical and realistic valuation for startups whether they are funded by debt or equity. In most cases, debt funding produces better outcomes for entrepreneurs: Own more of the company, exit when you want, get a bigger check on exit.

“Lighter Capital’s revenue-based financing dramatically accelerated our growth by allowing us to invest in product development, marketing initiatives, and expanding our sales team. I always felt like they had MapAnything’s best interests at heart. From time to time, we would see term sheets from different VCs and, over time, the terms offered improved to match our business success. So by the time we raised our \$7.3MM Series A from Greycroft, Harbert Venture Partners and Salesforce Ventures, I was very happy with the outcome for us as a business and founders. My co-founder and I continue to own the vast majority of MapAnything and that’s thanks to Lighter Capital helping us fund our growth rapidly when we needed it.”

After raising more than \$64MM across three VC funding rounds, MapAnything went on to be acquired by Salesforce for an undisclosed amount.



**JOHN STEWART**  
**CEO, MAPANYTHING**

# How to Evaluate an RBF Offer

So you're thinking revenue-based financing might be a good choice for you? Make sure all of the following considerations hold true before accepting an offer for your startup.

## THE LOAN

Think carefully about how the loan you are considering will affect your company's financial picture, not only how much you'll owe and how you'll pay it back, but also stipulations that could restrict your future options. Look at the following:

**Debt percentage.** Your company's debt should be less than 33% of annual revenue. This is called "The 33% Rule": Debt greater than 33% of annual revenue is unhealthy for startups. Don't do it. It's not likely to end well for either your startup or the lender.

**Repayment ability.** Your company's growth should soon cover your debt payments. If growth in gross profit is larger than the debt payments, the loan gives you a net positive cash position (and even better value appre-

ciation). Revenue-based financing has an extremely positive effect when loan payments are less than revenue growth multiplied by gross margin.

Example of a positive cash position: Imagine a company with debt payments at 4% of revenue and 80% gross margins. The company only needs to grow revenue 5% to make the debt payments and have the same cash flow for operations. All revenue growth above 5% is both positive cash flow and, of course, value appreciation without dilution.

**No warrants or minimal warrants.** Warrants are a right to buy equity in the future at a price established today. For example, the right to buy 1% of the shares in your company for \$X per share (usually the current valuation). Many [venture debt](#)<sup>13</sup> lenders require warrants and expect roughly half of their total returns will come from warrants (and half from interest payments). If your startup does well, the warrant can be worth a lot of money to the lender. Three main problems with warrants:

- Warrants dilute your ownership, so do the math on how much any warrant will cost you, assuming you meet your projections.
- Warrants align interests between the lender and a startup in good times, but they don't align interests if your startup doesn't grow as quickly you want.
- Many lenders require a "put option." This gives the lender the right to sell the warrant back to the company after a certain number of years. You have to assume you'll be required to make this payment, which can be very large and hinder your startup's ability to grow.

**Options.** Ensure that the structure of the lending provides options for the entrepreneur. Ask the following questions before you borrow:

- ***Can you get additional capital from the lender over time with improved terms as your startup grows?***
- ***Can you take out a bank loan?*** Will the lender subordinate their loan to a bank? Banks provide the cheapest capital possible, so you want to keep that option open.
- ***Are the pre-payment terms fair?*** This will be essential if you decide you want to raise equity.
- ***Is there a personal guarantee?*** If one is required and you don't have enough collateral to put up, that option is off the table for you.
- ***Are there reasonable (or no) financial covenants?*** Tight covenants hinder operating your startup as you want and may come with large and surprising downsides. Beware: A bad actor lender + tight covenants = startup death.

## THE LENDER

Trustworthiness is essential. Bad lenders ruin companies fast. Bad actors capriciously call loans and kill companies. Or their deceptive practices somehow make 92% APRs look like 10%. This really happens—so seek factual proof points, not just verbal reassurances. Ask for facts about the following:

**Track record.** Nothing assures predictability more than a long history of walking the walk. Don't take risks with your capitalization by being someone's experiment. Ask:

- ***“How many startups have they funded?”***  
The answer should be hundreds.
- ***“What is their Net Promoter Score?”***  
They should have one. If a lender doesn't have a [Net Promoter Score \(NPS\)](#)<sup>14</sup> to report, you can assume they either don't have a good one, or their track record isn't long enough for customers to have a strong relationship—both bad signs.

**Fund dynamics.** How the lender structures its lending will tell you a lot about the lender and the loan. Ask:

- ***“How big is their current portfolio of loans?”***  
The loan to your startup should be less than 5% of the lender's portfolio. Anything above this number and a hiccup in your performance can cause panic from lenders.
- ***“Is the fund a committed amount or is capital raised anew for each deal?”***  
Many new lenders start small, and some don't have committed funds. It can be difficult to discern this from lenders' websites, so seek validation from Crunchbase or press releases. If they are using committed capital, how large is the fund and how much dry powder is left?

**Commitment to tech startups and fair lending.** Your lender’s investment in building value-added benefits and their willingness to publicly commit to their values signal a dedication to the tech startup ecosystem, increasing the likelihood they will be a good actor. Ask:

- ***“Are there any value-added benefits?”***
- ***“Does the lender see themselves as a partner?”***
- ***“Do they offer connection to other capital sources?”***
- ***“Have they developed special programs, like the perks programs incubators offer to help their customers save money and grow?”***
- ***“Does the firm belong to the Borrowers Bill of Rights?”***  
[This association](#)<sup>15</sup> requires members commit to good practices. Make sure your prospective lender is a member.

**Proven principal and interest methodology.** With revenue-based financing, each payment you make is a percentage of revenue, not a set amount of interest and principal. Since the amount of interest paid affects your tax filings, you need an RBF lender with a proven method for splitting each payment into principal and interest. Ask:

- ***“What method do they use for determining principal and interest?”***
- ***“Have they ever been audited?”***  
If so, was the principal/interest split method they used validated? If not, how can a borrower know the method they use is valid?

With any revenue-based financing offer, make sure you understand the fees associated with the loan and whether there are stipulations that could restrict your future options—don’t forget to read the fine print. It always pays to do your homework and ensure you understand the terms and real costs of any type of financing.

# About Lighter Capital

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Lighter Capital is a fintech company revolutionizing startup finance by offering a new funding path for early-stage tech companies. We understand that an entrepreneur's two greatest constraints are time and money, and we've developed technology to fund companies quickly and easily. We provide up to \$3MM of non-dilutive growth capital in a fraction of the time it takes to raise from traditional sources. Based in Seattle, we've financed over \$150MM in over 550 rounds of financing to over 300 startups. Learn more at [www.lightercapital.com](http://www.lightercapital.com).

## Interested in Applying?

If your tech startup is ready to expand while maintaining ownership and control of the business, [apply for funding](#) today to connect with our investment team.

**INITIAL APPLICATION.** Takes 5 minutes.

**EXPLORATORY CALL.** Our investment team can work with you to see if funding from Lighter Capital fits your goals.

**ONLINE APPLICATION.** After the initial call, we will need more detailed information provided through our online application. If you use Quickbooks Online or Xero, we can automatically download much of this information. This includes:

- Financial statements
- Last three months of bank transactions
- List of major customers
- Sales pipeline
- Team backgrounds
- Churn rates
- Existing debt

Within two business days of the Exploratory Call and receiving your financial statements, we can provide indicative financing terms. Funding usually occurs several weeks later.

# Glossary of Terms

## ANGEL INVESTOR

Individual who provides funding primarily to early stage startups in exchange for equity in the company or debt.

## BOOTSTRAPPING

Startup companies that fund their business without external investment.

## CAPITAL

Monetary assets available for use.

## CAPITAL GAIN

The difference between the purchase price and selling price of a given asset.

## CAPITAL STACK

The totality of capital invested in a project, including pure debt, hybrid debt, and equity. The stack is described as containing

the most risk at the top, traveling down the stack to the position with the least risk.

## EARLY STAGE

Factors used to determine this vary, but in general, startups are defined as “early stage” as long as they require outside assistance to stabilize, grow and expand.

## EQUITY FINANCING

The acquisition of funds by issuing shares of common or preferred stock.

## EQUITY KICKERS

An equity incentive where the lender provides credit at a lower interest rate and, in exchange, gets an equity position in the borrower’s company.

## GROSS BURN

Your average monthly expenses. It doesn’t matter what money you’re making (or if you’re making any at all).

## LIQUIDATION

The termination of a firm’s business; for example, assets are sold, proceeds are used to pay creditors, and any leftovers are distributed to shareholders.

## MONTHLY RECURRING REVENUE (MRR)

Income that a business can count on receiving every month.

## NET BURN

Your monthly expenses (gross burn) minus your monthly revenue.

## **PUT OPTION**

An option contract providing the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price and within a certain time frame.

## **REVENUE-BASED FINANCING (RBF)**

Non-dilutive debt capital that can be acquired quickly and repaid based on monthly or annual recurring revenue from memberships, subscriptions, regular deliveries and/or ongoing provision of services.

## **RUNWAY**

Cash you have in the bank, divided by your net burn.

## **SERIES A**

The first major round of venture capital funding

wherein preferred stock is issued.

## **SERIES B/C/D/E:**

Later rounds where preferred stock is issued.

## **TERMS**

The period used to calculate the monthly payment.

## **VALUATION**

Estimated worth of a business.

## **VENTURE CAPITAL**

Money provided by venture capital firms to small, high-risk startup companies with major growth potential.

## **VENTURE CAPITALIST**

An individual investor who works at a venture capital firm and makes investment decisions.

# Citations

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