pipe

A guide to building your startup's **capital stack**

How startup founders can go beyond equity and debt to grow businesses on their terms

If you're looking to scale your company, more times than not you'll need capital—and probably more of it than you have lying around.

Bootstrappers and early-stage founders might funnel their available cash into the business and then need another capital infusion to help reach the next level. Others might have already sold equity or taken out loans, leaving them curious about alternatives that can work with their existing capital stack without further dilution. Sound familiar? You're in good company.

While equity and debt (including venture debt, bank loans, and revenue-based financing) have long been available to founders, and can no doubt be helpful at certain stages of growth, these options don't work for all situations. Many founders find themselves looking for their right fit when it's time to fuel growth and scale.

The good news is that today startups have more options than ever to build their ideal capital stack. In this ebook, we'll talk about it—and discuss what you need to know about the state of startup financing. We'll look at the challenges facing startups and founders when it comes to accessing capital. We'll cover traditional financing options and how alternative financing can bridge common gaps. Finally, we'll walk you through a new approach to accessing capital—Pipe—that doesn't involve taking on restrictive debt or giving up equity, and explore what to consider as you weigh your financing options.

Financing challenges faced by startup founders

When founders are trying to grow or scale their businesses, they've probably looked into equity and loans, and maybe even revenue-based financing, to access the capital they need. But while these common financing options can be a great fit sometimes, they can also be restrictive, dilutive, and/or can carry a high cost of capital, which may not align with every founder's needs. For instance, if you're trying to access capital to spend on sales and marketing or hire a winning team, giving up equity to finance that growth might not match your goals, and there are likely quicker and cheaper ways to make that happen.

But it can be tricky to sort out the options or understand how to best balance valuation and dilution—and it's important to get it right. Crafting a thoughtful and informed capital stack—that gives you both the cash and the flexibility you need, when you need it—can make or break your business.

Founders can face challenges around access as well. For one, access to capital can be relatively slow with traditional financing—loans can take months to line up, and equity can take even longer. For businesses that want to be nimble, spending months raising a round or waiting on loan approvals doesn't leave much room for agility.

It can also be tough to tap into equity if your region doesn't have a robust venture capital market, or if the market's experiencing some rockiness. And many financing options depend, at least somewhat, on existing relationships, which can create biases and blockers that hold back underrepresented founders.

For just one example, research from Crunchbase shows that "Not only did total funding to female-led startups fall [in 2020], but the proportion of dollars to female-only founders also declined, to 2.3 percent, compared to 2.8 percent in 2019"

Great ideas and growing companies might hit barriers based on simple factors of timeline, location, or demographics. Sometimes you need a different solution.

Standard financing options for startups

Historically, businesses looking to raise capital largely relied on a few well-known financing options. (And many companies consider or use more than one type.)

Let's take a look at some traditional financing methods and how they work:

Angel investors

When you're just starting out, an **angel investor** can truly be an angel for your business. An angel investor or private investor is someone who provides financial backing for startups, often in exchange for equity: a piece of ownership of the company. They may be among family and friends, or a high-net-worth individual from the investing community. Funds from an angel can be a one-time investment to help get a new startup off the ground, or can take the shape of ongoing funding through the early stages of business.

Equity

Equity financing—including venture capital—is a major source of capital for growing businesses, and it can be key to getting a startup off the ground. With equity, early funding rounds allow ideas to become companies and help you make your vision a reality. Early on, that opportunity can make dilution a worthwhile trade-off and enable you to really invest in R&D and achieve product-market fit. You might also want to tap into that early equity financing to buy new equipment, expand your production capacity, or lease office space. But as your business grows, equity financing may no longer serve your goals the way it once did. While it provides you with working capital, it can also be highly dilutive, which can be costly in the long run.

Loans

Traditional business or bank loans can be another sound option. They're usually (reasonably) simple cash transactions paid back with interest. They generally don't require you to give up equity (minus some warrant coverage), and they're accessible for founders in most regions. While loans can be a reliable source of non-dilutive capital, approvals tend to move more slowly than many startups would like and loan terms are usually designed to protect the lender, not the borrower. Covenants are one of those protections, and can restrict you from borrowing more money, selling certain assets, or allowing certain financial ratios to pass a given threshold. With loans, founders might also need to prepare a business case and provide a 3–5 year financial model—which can be a massive undertaking for a time-conscious entrepreneur.

Revenue-based financing (RBF)

Revenue-based financing is often considered a "new" option, but it's actually been around for a few decades. (Some well-known forms of RBF you might be more familiar with are merchant or business cash advances.) With RBF, you get capital in exchange for a fixed percentage of your company's revenue over time, and your future revenue acts as collateral for the loan. Repayment is typically based on a percentage of revenue each month until a predetermined multiple of the loan is repaid. For example, you might repay 5 percent of your revenue each month until you've paid twice the amount borrowed. Compared to traditional loans, RBF can be a relatively quick way to get cash into your business without losing equity—but the total repayment amount can also be quite high.

Venture debt

Venture debt is a type of financing that founders of high-growth, venture capital-backed companies can access from specialized banks or non-bank lenders between equity rounds, or to fund capital expenses such as large equipment purchases or acquisitions. It can be a good option for earlier-stage startups that don't have significant traditional assets or the cash flow needed to acquire a regular business loan. This is because venture debt is designed for businesses focused on growth rather than profit. Positive cash flow is less important and assets are typically not used as collateral for these loans.

A big upside to venture debt is that, if all goes well, it can help businesses accelerate without high levels of dilution. But keep in mind that for investors, venture debt carries a higher risk of default, so it typically comes with a warrant—or the right to purchase equity in the business doing the borrowing—as compensation. Sometimes venture debt may include covenants as well.

Traditional financing options can be beneficial for startups, and in many cases, one or more will be part of your capital stack. For founders who want the flexibility to grow their business on their terms, alternative financing options like Pipe—up next—can be key to make that stack just right.

Modern alternatives, reshaping the financing landscape

Maybe you're a founder who wants to hold on to 5 percent of your equity—or 80, or 100 percent. That's all okay! New options are shaking up the financing landscape by giving founders the agility they need to grow on their own terms and timelines—meaning they can build the capital stack that truly works for their business.

Let's dig into a non-dilutive option that many founders are tapping into as they pursue the right mix of financing to sustainably grow their business: recurring revenue financing. .

Pipe

As the **world's first trading platform for recurring revenue**, Pipe is paving a new avenue of financing, treating recurring revenue as a valuable asset and enabling founders to leverage it to access non-dilutive, non-restrictive capital.

The world's first trading platform for recurring revenue.

Pipe provides **a two-sided trading platform** that allows a broad range of companies and verticals—from SaaS to D2C subscriptions, service businesses to media and entertainment to VC management fees—to pull forward their predictable recurring revenue streams and tap into up-front capital without taking on restrictive debt or dilution.

Benefits of recurring revenue financing

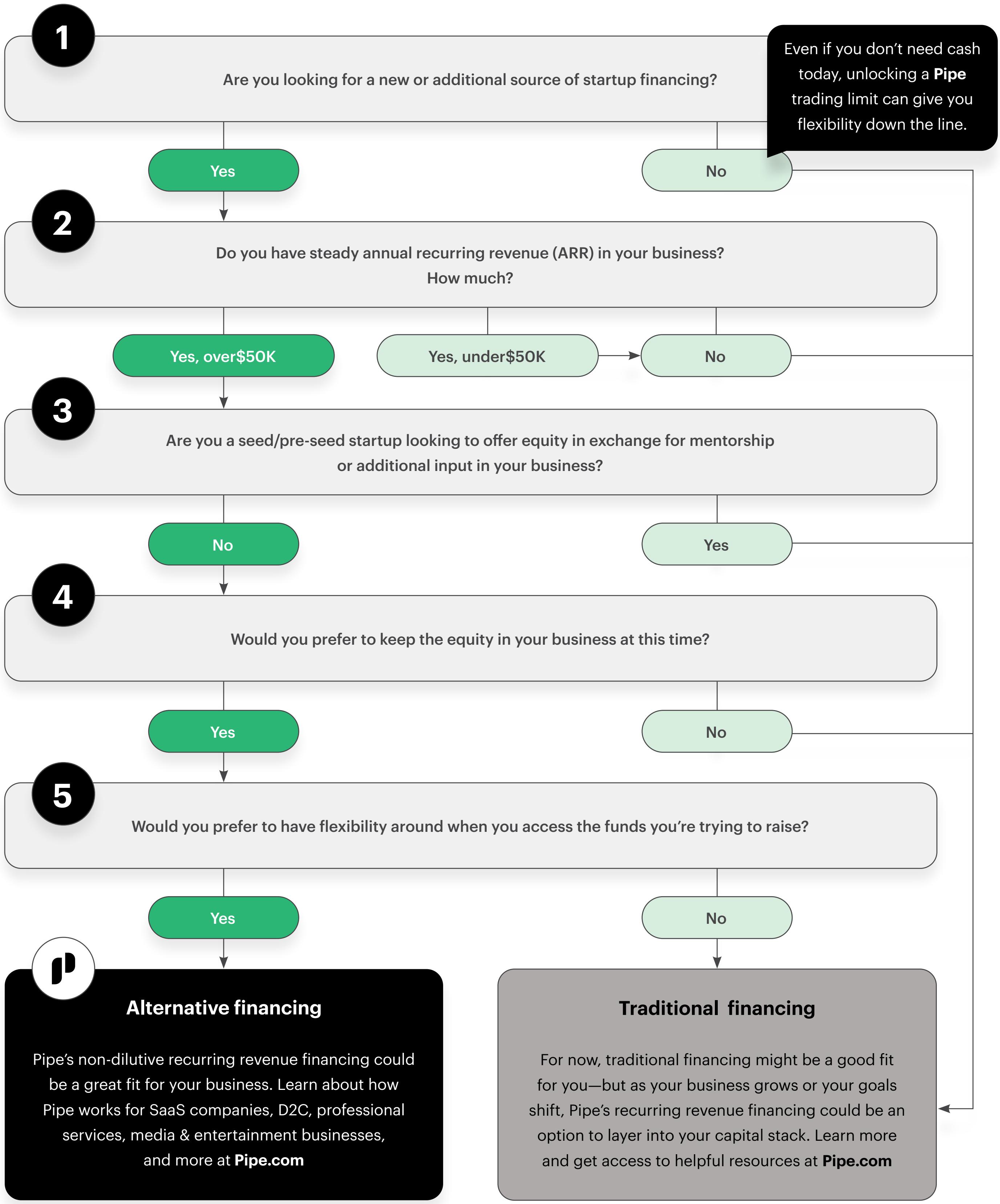
Smooth out cash flow. Founders need options that protect their time and agility so they can grow the business at their own pace while still focusing on day-to-day operations. But for some businesses—especially D2C and service businesses—seasonality, customer payment terms, inventory requirements, sales cycles, and other factors can leave otherwise healthy companies with cash flow gaps. With flexible recurring revenue financing like Pipe, founders can smooth this out, accessing the capital they need when they need it.

Raise better rounds. If you're looking to continue raising rounds of equity, leveraging recurring revenue financing can help you stay focused on running the business and strengthen your position when you come to the negotiating table. "If you're an early-stage startup, it's easy to get caught up in the world of fundraising. The more you chase growth, the more you lose control of your equity," startup and investor site GrowthPal reports. Using recurring revenue financing as capital for growth can help you prioritize equity strategically, getting the best of all worlds.

Pipe is for everyone. Modern financing alternatives like Pipe are all about approachability, accessibility, and leveling the playing field. With Pipe, access to capital is based on the health of your business and the hard numbers, not who you know—a relief to many founders just looking for a fair shot and industries that have been underserved by traditional financing. In fact, Pipe's recurring revenue financing is industry-agnostic, serving customers in industries from media and entertainment to real estate, coffee to CBD, SaaS to professional services.

Alternative financing can help you grow on your terms

If you're a founder who's ready to explore new options to build the perfect capital stack for your business, it's time to ask yourself some questions. **Could recurring revenue financing through Pipe be right for you?**



Pipe: for founders, by founders

Pipe was built by a team of passionate entrepreneurs who understand the challenges and opportunities founders face when deciding how to finance their companies. We know founders need flexible options to be successful. By allowing you to transform your recurring revenue into up-front cash, Pipe's platform is access to your capital, on your schedule, and on your terms.

Here's how to get started: sign up for Pipe, securely connect your accounts, and we'll complete an objective assessment of your business's health based on real numbers—no business plan or deck needed. Once you're fully set up and connected, you'll get a trading limit (that's how much of your recurring revenue you can pull forward for instant access to capital) and bid price (usually .93–.98 cents on the dollar or pence on the pound) within about 24 hours, so you know exactly what's available to you.

Ready to learn more about using your recurring revenue as an asset to access non-dilutive capital? Connect with us directly to see how Pipe can fit into your capital stack.