

First-Stage Financing Phase

First-stage financing, also known as the ramp-up phase, is the final phase in early stage financing. It is characterized by ramping up production and sales. Ramping up the business by increasing sales is an indication of success because the company's business model is being validated.

Business volume may be approaching break-even and profitability is within sight. If the company achieves profitability in the start-up phase or shows clear signs of being able to achieve profitability in the ramp-up phase, venture capitalists may be interested in financing this phase.

From a strategic perspective, the ability to accelerate the ramp-up momentum into growth may catapult the company into its growth stage, in which it establishes profitability and is able to finance its operations from internal resources.

Expansion Stage Financing

Second-Stage Financing Phase

This financing follows first-stage financing and provides working capital for the initial expansion of a business that is producing and shipping product and has growing accounts receivable and inventories. Although the company has made progress, there are instances in which it may not yet be profitable.

Third-Stage or Mezzanine Financing Phase

This is provided for major expansion of a company that has an increasing sales volume and is profitable. These funds are used for further plant expansion, marketing, working capital, or developing an improved product.

Bridge Financing

Bridge financing involves filling a time gap between when an expenditure is made and returns are generated. For example, government grants often involve bridge financing because the grant will not pay directly for the purchase of an asset (e.g., equipment) but will reimburse the company after the purchase is made. So, bridge financing fills the time gap from the time the expenditure is made (equipment is purchased) and the company is reimbursed by the grant for the purchase of the equipment.

Bridge financing may occur in any of the financing phases outlined above. It is usually provided by commercial banks.

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