2007 Paper 7 Question 13

Business Studies

(a) Give *five* criteria an investor might apply to a start-up proposal. [5 marks]

(b) What are the differences between *debt* and *equity* finance? [5 marks]

(c) A software start-up company is developing computer games software. They believe their game will have potential market of a million units selling at a retail price of £49.99. They have already raised £1M from Angel investors for 33% of the company, which has been mostly spent on development. They estimate they can complete development and become cash flow positive following initial marketing, but that this will cost a further £1M and take another year. They intend to raise this money by selling further equity.

(i) Price this issue. [5 marks]

(ii) They receive a letter of intent from a publisher confirming their market estimation and offering 10% royalty on the retail price with £500k recoupable but non-refundable advance (where the publisher will take the first £500k of royalty earned to recoup the advance, but will not demand a refund if the game fails to sell). Should the company take this offer and how does this affect the proposed share offer? [5 marks]