

10.5 Finding investors

PRODUCT
DISTRIBUTION
PROMOTION
PEOPLE
FINANCE
RISK
GROWTH

- > *Sources of capital*
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One option for expanding your company is to bring in an outside investor. Investors with capital, strategic, operational and financial skills, established networks and industry knowledge—‘smart money’—can make a huge difference to your growth rate.

Many business owners are, understandably, a little nervous about bringing in professional investors. They do not want to be accountable to somebody else. They would rather own 100% of the pie. But what size pie? Perhaps 50% of a very large pie would be better than 100% of a small pie.

Sources of capital

Sources of capital include

- > government grants and other grant givers
- > the 3 Fs—family, friends and fools
- > debt
- > informal or angel equity from private investors
- > expansion capital from venture capital firms
- > public capital from a public offering and stockmarket listing

Angel equity

Angel equity typically comes from business people with spare capital, often from selling out of earlier businesses. They typically seek a hands on, strategic role in the company, and may invest anywhere between \$10,000 and \$1,000,000.

Angel investors can be hard to find, as they value their privacy. An inexpensive way to locate them is through professional service providers, who are generally aware of angels in their networks. A more formal path is through angel equity matching services, who will match opportunities with investors for a fee. There are over 20 such networks in Australia.

Private equity

Private equity fund managers invest capital on behalf of institutional clients such as superannuation funds and insurance companies. Some funds also aggregate capital from sophisticated private investors.

Private equity fund managers will seek returns of about 25-30% per annum. They will want a clear exit path after 3-7 years, typically through a share buyback, trade sale, or public listing. They will nearly always require a seat on the board of directors, but will generally stay clear of day to day operations. However, they will often seek to negotiate detailed performance agreements with you as the business owner.

What investors want

Investors will be looking for a business that has

- > a well balanced management team
- > a substantial market opportunity and high growth potential
- > a distinctive, superior product that is likely to generate high market demand
- > some sort of protection from competition by some kind of barriers to entry, that prevent or retard competitors from entering your marketplace
- > a well thought through industry and market strategy
- > a track record of profits, or as a minimum, sales
- > no major legal threats or regulatory encumbrances
- > a straightforward ownership structure, with a limited number of existing shareholders

Before seeking investment

Before seeking investment, ensure that you are ‘investor ready’. As a minimum, you will need to

- > ensure that your management team has sound marketing, financial and operational skills, or at least be clear about what you are missing
- > unwind any tangling of personal and business finances and assets
- > ensure that your accounting and business records are in order, including taxation returns and audited financial statements
- > update your business plan
- > perfect your pitch—be able to explain clearly and succinctly exactly why somebody should buy into your business

It may also be wise to obtain an independent valuation of the company so that you have a realistic view of what you can expect. In the end, of course, it is worth whatever a buyer is willing to pay. However, a valuation will provide you with a working estimate.

You may also like to refer to the list of actions in Module 10.3, ‘Selling your business’.

Government websites

AusIndustry www.ausindustry.gov.au

Invest Australia www.investaustralia.gov.au

Venture Capital Board www.vcbasa.com.au

Capital provider websites

Australian Venture Capital Association Limited (AVCAL)
www.avcal.com.au

Origin Capital www.origincap.com

Paragon Equity www.paragonequity.com.au

Playford Capital www.playford.com.au

Rundle Capital www.rundlecapital.com.au

SA Venture Investors www.saviinc.com.au

Smartlink www.smartlink.net.au

Triton Foundation www.tritonfoundation.org.au