Mills Selig
Understanding. Expertise.

Raising Capital

Whether you've been in business ten weeks or ten years, an injection of funds is always welcome and often necessary to take your business to the next level.

The smart approach is to prepare and act well before the funding requirements become a necessity. But what type of financing is best for your business? Just embarking on the process can be overwhelming so it makes sense to take advice early.

Bootstrapping

Many entrepreneurs choose multiple forms of funding as their business expands. For example, it may make sense initially to "bootstrap" your start-up but after one year of draining your bank account (and those of your family and friends), it might be better to secure equity finance or debt funding as well.

Government Grants

Grants to help with business development are available from a variety of sources, such as the government, European Union and some charitable organisations. These grants may be linked to business activity or a specific industry sector. Some grants are linked to specific geographical areas, e.g. those in need of economic regeneration. Government grants are almost always awarded for a specific purpose or project and are usually for proposed projects only - not for those that have already started. However, these grants are subject to high bar conditions as the eligibility criteria for grants are stringent and there will be strong competition.

There are also strict terms and conditions that apply to all grants. If these aren't followed, immediate repayment of the grant can be required. Generally you do not have to repay grants or interest on them unless you break the conditions.

Bank funding

Banks have traditionally been the first call for businesses seeking to raise funds. They offer short, medium and long-term debt finance via terms loans, fixed asset loans, overdrafts and bridging finance. Banks may also provide a range of specialist services to fund expansions, mergers or acquisitions. Banks remain willing to fund businesses with strong business plans and forecasts. Often they will be part of a funding package for your business, alongside equity finance and personal investment.

Private Equity

Equity finance is raising capital from external investors in return for handing over a share of your business. This may take many forms, including a share of future profits, but is most frequently associated with sharing the ownership of the business to some degree and allowing those investors some influence and control over your business.

The two main providers of equity finance for smaller private businesses are private equity firms (also called venture capitalists or VCs) and business angels. The latter are typically high net worth individuals often with personal entrepreneur experience. Equity investors expect to make a return on the money invested, dependent on the growth and profitability of the business, and may also receive dividend payments.

Your business may raise substantial funds this way and the private equity firms and business angels can offer valuable advice and contacts to increase the profitability of your business.

Crowdfunding
Crowdfunding is a form of funding, often facilitated by website platforms, on which your idea and your business are pitched to members of the public who join together to invest. It can be very effective for first-time entrepreneurs seeking to raise smaller amounts of money. To encourage people to invest in your start-up, most of the crowdfunding platforms suggest offering staggered rewards (such as exclusive access to products or a discount on services) according to the amount invested. There are also platforms which allow businesses to offer a small proportion of equity to create an added incentive for potential investors. This is particularly appropriate for start-ups looking to raise slightly larger sums. The main benefit of crowdfunding is that it creates a strong network of support for your start-up. With the equity model in particular, your investors are likely to become ambassadors for your brand – promoting it among their networks, tracking your progress and becoming returning customers themselves.

Equity upside and downside
The upside to raising funds from business angels, crowdfunding platforms or private equity firms is that you will receive funds that you can invest in marketing, product development, sales mechanisms and other key areas. The downside is that someone else will own part of your business. How you balance that equation is negotiated between you and the investor(s). Managing expectations from the beginning is key. Be clear about what you want to do with the business and how long it will take to execute. It's nothing like borrowing money from a bank and much more like a marriage.

Listing
Many local entrepreneurs consider listing/floating their company on a stock exchange. Growth markets such as AIM, the London Stock Exchange's market for smaller and growing companies, gives these businesses an opportunity to raise significant capital by offering their shares to the market. This enables exponential growth of the business and potentially substantial returns. Accessing investors through flotation can enable your businesses to develop and expand into international markets.

Invoice factoring
Invoice factoring, also known as invoice financing or invoice discounting, allows you to raise cash against your invoices. With factoring, you can typically borrow up to 90% of the invoice value with a quick turnaround. This improves your cash flow, giving you an instant injection of capital when needed most. Invoice discounting works on the same principle as invoice factoring, only you retain full control of your sales ledger and take care of your own payment collection.

In both cases, once the factor has been paid in full this means your loan has been paid off without you having to hand back any cash. Factors will charge a percentage of the invoice value, so you don't receive the full amount of your invoice. This may decrease your profit margin, but it's often a small price to pay to improve your cash flow and have access to expert business advice.

Whichever funding you choose for your business, having the right legal advice at the right time is crucial. Our talented and straightforward lawyers can guide you through the technical requirements of the funding provider in a timely and efficient manner, enabling you to get on with the business of growing your business.

We Can Help

At Mills Selig our talented and straight forward lawyers advise on all aspects of raising finance - acting for borrowers and lenders, private equity and venture capital firms and companies seeking investment.

Chris Guy
Director

T: +44 (0)28 9044 5411
E: chris.guy@millsselig.com

Kathryn Walls
Director

T: +44 (0)28 9044 5404
E: kathryn.walls@millsselig.com