Equity Finance

What is Equity Finance?

Equity Finance is share capital invested in a business for the medium to long term in return for a share of the ownership in, and in some cases an element of control or influence over the business.

The main advantage of Equity Finance (over trade or debt finance) is that it is not usually repayable at least in the short/medium term. Equity investors will expect a return typically over a 3 to 8 year period in the form of dividends (where appropriate) and from the sale of their share of the business when the business 'exits' via trade sale or flotation.

To prospective investors an Equity investment is the highest risk form of capital and as such they will expect the highest form of return in the medium to long term.

Is Equity Finance right for my Business?

The providers of Equity Finance will most often make the majority of their return when the business is sold or floated. If you are not contemplating the eventual sale or float of your business then Equity Finance will not be appropriate for you.

The providers of Equity Finance take the greatest risk of all prospective investors. As the providers of capital that is at the greatest risk they will expect the greatest return on their investment and to be capable of making returns of the magnitude required such investors are typically looking to invest in businesses with high and fast growth opportunities. If your business does not have the potential to grow and to grow quickly then Equity Finance is most probably not for you.

The nature and risk profile of Equity Finance means that the providers of this type of capital will often take an active interest and involvement (often non-executive) in your business. They will also place certain restrictions on the things that you will be allowed to do without their specific consent.

For businesses and managers that are focussed upon a strategy of fast growth for exit then the involvement/support of the Equity Investor and the limited restrictions that they will impose do not represent a material challenge but if you are the sort of business owner that would find this type of regime a challenge then maybe Equity Finance is not for you.

What are the Sources of Equity Finance?

Equity Finance can be procured from a variety of sources but the most common of these for SMEs will be Business Angels, Development Capital Funds and Venture Capital Funds.

- **Business Angels** – (or 'Dragons') – These are typically high net-worth individuals who have often made their own wealth by building up a business that they have then sold or floated and who look to invest part of the wealth that they have generated into the equity of a small number of private companies. A Business Angel will often bring more than just money to the table, they are often by nature successful business people and they bring a vast knowledge, experience and contacts to the board table. For further information see Business Angel Funding.

- **Development Capital Funds –** These are institutional investors (often investment funds managed by professional fund managers) looking for growth/development capital funding investment opportunities. In the SME part of the market many of these funds have complicated investment rules based upon the geographic location of the target business, the market sector of the business and in some cases they operate under 'matched' investment rules (rules under which they are permitted to make an investment on identical terms to another 'matching' investor). For further guidance on the Development Capital Funds in your area please call **0845 BLUE SKY** (0845 2583 759).

- **Venture Capital (VC) Funds or Venture Capital Trust (VCT) Funds** – Again these are institutional investors (often managed by professional fund managers) and they will be looking for buy-outs, buy-ins, acquisition opportunities and in some cases growth/development capital investment opportunities. These venture capital funds will have sector, geographic and business stage of development type preferences and before these funds are approached, it is important that you make sure that your business meets the stated profile preferences of the fund concerned.

How can Blue Sky Corporate Finance help you?

Blue Sky can help find the right investor(s) for your business. We manage the whole process from helping you to prepare to approach the prospective equity investor, to finding the investor, to negotiating the deal terms enabling you to do what you do best – running your company.