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Tailor-made connections: matching financing needs to providers

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For many entrepreneurs, the need to find financing can be like trying to sprint while dragging a weight along the ground. The time and effort spent researching financial sources, preparing pitches, and telling their story holds them back from focusing on the business and making their vision a reality.

Advisors including lawyers, dealers, accountants and business coaches can be a huge asset in this race, helping companies connect with the right financial resources. But there are still significant inefficiencies in the process, especially in the private capital markets, meaning that many companies cannot find the money they need to grow. Financial sources can be equally frustrated trying to find the right opportunities that fit their portfolio.

The key is for companies to understand their options regarding finance, getting the right help, and tailoring their story and presentation to the needs of each potential financing source.

Understanding companies' financial options

Entrepreneurs generally have a well-defined area of expertise – maybe in a specific technology or business sector – which often does not extend to the world of finance. Experience has revealed that many entrepreneurs need to be assisted in understanding three key areas:

1. **Clarify the company's financing purposes**
   Part of the "tailor-made" approach to finance involves getting a clear idea of the company's purpose for the money raised. If the company is pre-revenue, but on a high growth trajectory, the need is for capital to fund that growth – likely from investors who are interested not in dividends, but multiple returns on their investment from capital growth.

   On the other hand, a more mature business might be looking for expansionary capital – maybe to make a strategic acquisition, to fill in a gap in its technology, or to take out a competitor. In such a case, it may be that the business' cashflow can be utilized and the lowest-cost form of capital, commercial bank debt, can be arranged.

   In between these two ends of the capital spectrum are many other financing possibilities, including income-based preference shares, convertible notes and others. These choices might attract investors seeking opportunities with lower risk, more security but with a lower capital return, or an upside potential.

2. **Find financial resources that click**
   As alluded to above, there is a wide range of financial instruments available to meet the needs of both investors and companies seeking financing. There are new private-equity and specialist funds being developed, each offering a different type of financing. As an example of some of the alternatives currently available, there are funds that will:

   - Create royalty-like financing structures based on recurring revenue profiles;
   - Work with Software-as-a-Service (SaaS) companies, structuring finance in a way that meets the cost and revenue patterns of SaaS platforms; and
   - Help companies that want to upgrade their lighting from standard to LED fixtures to reduce energy, and take a share of the resulting savings to make the loan payments.

   Some of these funds appear on short notice, and can get pulled back just as quickly if they fail to attract enough interest from investors or companies seeking finance, or regulatory changes occur that impact returns.

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The result is a financial world that at times resembles a quick-fashion clothing store operating at warp speed. Merchandise appears suddenly and unpredictably, and may be exactly what you want. But you need to be watching the whole store to find the right deal.

What is therefore needed is someone who has a good understanding of the customer's needs, and of the fast-changing merchandise available, to match product to customer.

3. **Meeting regulatory obligations**
   Should equity be the right option, raising equity finance from third party investors is bound by a wide range of regulations. Bodies such as the specific provincial securities commissions have put in place a system of rules and obligations designed to protect investors – particularly safeguarding investors whose appetite for returns may exceed their knowledge of the risks they are facing.

   As a result, entrepreneurs need to inform themselves of their obligations. This includes the information – including formal documentation and disclosures – that they must prepare on the proposed investment.

   One of the most important aspects is determining whether a formal prospectus is required. Due to the cost and time required to prepare a prospectus and meet the ongoing obligations that result, many private businesses seek to rely on one or more prospectus exemptions that will allow them to achieve their financial goals without need for a prospectus.

   A skilled dealer can help the entrepreneur determine what prospectus exemptions should be relied upon and hence the regulatory requirements that need to be met – and how to structure the offering in a way that is most efficient from a regulatory compliance point of view.

Working with an advisor to get results

An advisor with the ability to match funding source to need can help make sense of the fast-changing financial marketplace.

This includes understanding the current needs of the company, but with an eye to the future. For example, while a startup might not offer the financial stability required by some financiers and therefore needs to focus on early stage equity investors, it might also need to start putting the accounting and operational procedures in place so it has a demonstrable track record when it is ready for financing by more conservative sources.

Having a solid relationship with a trusted advisor who can keep an eye on the financial resources available, can help with the long-term growth of the company.

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