Challenges Business Owners Face in Raising Equity Funds

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Los Angeles and Southern California business executives often find that they need a cash infusion in order to take their companies to the next level. In this scenario, they have two primary options for funding: debt or equity.

Debt is simply a loan, usually from a bank, that must be repaid with interest. Equity is different. This is money that's invested in the business by a venture capitalist or angel investor. In return for their investment, these investors receive an ownership stake in the business.

Specialized Expertise Required
While obtaining a business loan is a fairly straightforward process, raising equity funds requires specialized expertise. Unfortunately, owners and entrepreneurs sometimes embark on the process of fundraising with little or no knowledge of how to do it successfully. This usually results in frustration and, worse, the failure to secure the financing needed to grow the business.

Specifically, owners who are inexperienced in fundraising typically do not:

Understand the pros and cons of debt vs. equity financing. Many assume that equity is cheaper than debt, but in reality, it's usually just the opposite. There's a huge tradeoff whenever shares of a business are exchanged for capital.

Know how to structure an equity financing agreement. Legal counsel can help write a contract, but structuring an equity agreement involves much more than just dotting legal i's and crossing legal t's.

Understand how to find the right investors for their business. If and when they do find the right venture capitalist or angel, they often don't know how to approach the investor.

Know how to negotiate effectively with venture capitalists and angels. These are professional investors who are experienced in what they do. An owner or entrepreneur, on the other hand, may only negotiate for equity financing once or twice in his or her life. Just think about how many aspiring entrepreneurs on the hit TV show *Shark Tank* get eaten alive by venture capital pros like Mark Cuban, Kevin O'Leary and Barbara Corcoran.

As a result, inexperienced owners and entrepreneurs often end up:

- Choosing the wrong form of financing and/or the wrong financing source.
- Structuring the financing agreement in a way that is not advantageous to their business.
- Paying a higher cost of capital than they need to.

- Failing to secure equity financing at all and forfeiting opportunities for business growth and expansion.

How an Outsourced CFO Can Help

If you plan to engage in equity fundraising but don't have any experience in this area, it might make sense to talk to an outsourced CFO services provider to find out how he or she can help you in this endeavor. An outsourced CFO is a trained financial professional who has participated in equity fundraising via either private placements or public offerings. Given this experience, the outsourced CFO understands the nuances involved in raising funds from equity investors. An outsourced CFO can:

- Help you analyze the cost of capital and keep this cost as low as possible.
- Make sure the equity financing agreement is structured economically in a way that's most beneficial to your business.
- Help ensure that you get the best and most efficient service from external legal counsel at the lowest possible cost.
- Negotiate effectively with equity investors by "speaking their language."
- Assist with due diligence to insure things are in order and no surprises result in a reduction in value.

With assistance from an outsourced CFO services provider, you and your new equity partners will have a clear understanding of your expectations for each other. And you will better understand the terms and cost of the deal, any expectations in terms of contributed assets and liabilities, the ownership impact of bringing on equity investors, and any operational control ramifications. This will free you up to spend more time focusing on growing the business and boosting income and profits.

Concluding Thoughts

Raising equity funds to support business growth requires specialized expertise. Unfortunately, owners sometimes embark on the process of fundraising with little or no knowledge of how to do it successfully. An outsourced CFO can provide valuable assistance in fundraising by analyzing the cost of capital, making sure the financing agreement, if required, is structured properly, and negotiating with equity investors. This will help provide you with a better understanding of the terms and cost of the deal while freeing you up to focus on growing the business.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.