

# **Raising Investment Capital: A tough road for Australian Entrepreneurs**

**By Reuben Buchanan, Director of Integral Capital Group**

Although there is much investment capital available in Australia, raising it can be a tough road for entrepreneurs, particularly for early stage or start-up companies. Australian investors can be described as more conservative when compared to their American counterparts. You Tube, who received Venture Capital funding of around US\$11m while incurring a cash burn rate of US\$1m per month, would have struggled to attract similar funding in Australia.

The reasons for this conservatism can be attributed to one of more or the following reasons:-

- Many investors have lost their money on a couple of past ventures, especially technology
- The Australian market here is smaller and more fragmented when compared to the US, China or Europe (who have tens of millions of people at their doorstep), therefore there is less chance of new concepts getting up
- ASX is doing very well - why risk you money with a start up/early stage venture?
- The pool of genuine angel investors in Australia is small and hard to access. Promoters may have to do dozens of investor pitches in order to find the right one. Also, there is no central 'angel investor association' which the promoter can simply turn up to.

'It's not hard to find the money, it's just really hard to get the investors to part with it'.

## **Tips for Raising Capital**

Here are some tips which are guaranteed to make your road to capital raising an easier one:-

1. Understand your market place thoroughly and who your direct and non direct competitors are. Include as much of this information as you can in your business plan.
2. Talk with and meet with as many investors and VC firms as possible, even before you are ready to raise capital.
3. Get to know the investors requirements and appetite. If they have funded any companies that are competitors, or are similar, this will have a big impact on whether they chose to fund you.
3. Be clear on how much you are asking for, what the funds are to be used for, and how much of the company it will represent. You must also totally justify this valuation by way of comparable investments, assets, capital and time invested, listed benchmarks and projections. Value is where most negotiations fall down.
4. Once you have agreed in principal, get a term sheet or heads of agreement signed by both parties. Then work through necessary due diligence towards the point of

funding. Make sure you have adequate legal representation on your side. Its never cheap but its not as expensive as the alternative should things go wrong. Make sure you lawyer has previous corporate and capital raising experience.

6. Ensure there is provision for a clawback in the agreement. This allows you to buy back shares from the investor at a minimal price if you achieve a certain milestone. Most investors will agree to this.

TIP: Don't forget that 20% of something successful is better than 100% of a failed venture. In most cases, successful companies are build on a base of investment capital so don't be afraid to give up some of your hard earned equity to ensure that your business idea has the best chance of success.

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### **About Reuben Buchanan**

Reuben Buchanan is a corporate advisor for Sydney based advisory firm, Integral Capital Group. His primarily role involves raising capital for both public and private companies, of amounts between \$1m and \$10m. These companies use the funds to expand or make acquisitions of other companies. Integral Capital also assist companies with their IPO plans as an advisor, and from time to time do private placements into public companies of around \$1m to \$5m.

Integral Capital Group was founded in 1990 by Len McDowall, who previously was a founding partner of Bird Cameron & Associates, who are now known as RSM Bird Cameron.

Previously Reuben Buchanan started and ran Wealth Creator magazine, launched in 2002. ([www.wealthcreator.com.au](http://www.wealthcreator.com.au)) He on-sold the business three years later to a private investor group. Wealth Creator magazine remains highly regarded publication in the business sector in Australia.