



Article 24

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## **Be Prepared Before Talking to a Potential Equity Partner**

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When many entrepreneurs think about funding the growth of their business, they think about taking on more debt. That works pretty well when times are good and asset prices are going up.

But what do you do when a loan is not available and your favorite banker says you need to finance growth with cash flow. What happens if there is not enough cash to pursue your growth dream? This is usually when entrepreneurs start thinking seriously about finding an equity investor. You may not call it that in the beginning, but as your investigation proceeds, you will realize that folks who are willing to provide growth capital that is at risk of being entirely lost are called equity investors. Because of this risk, investors will want to own a piece of the rock and will probably also want to exert significant influence on the business.

The tipping point comes when the bank says “no mas” and you must decide whether you want to put the brakes on growth and give up potentially rewarding value creation opportunities, or give up a slice of the pie to obtain the cash to fund continued, rapid growth of the business. Equity investors will invest if they see the opportunity to help you grow the value of the business quickly enough to generate attractive risk-adjusted returns for them. If your planning indicates that selling a portion of the pie will help you create the growth rate and the company value you desire, then it makes sense to pursue equity financing.

As an entrepreneur, in order to be ready for equity, you must be able to put down on paper your vision for building the business. In other words, you need a business plan.

Most equity investors want to see that you have put enough thought and work into your business idea that there is a reasonable benchmark against which to compare actual results. Of course, the plan will often be wrong, but it needs to be prepared and presented to equity investors. If you can't put your idea on paper, you're likely still in the networking and brainstorming phase and not yet ready for equity capital.

Your plan must articulate the amount of money you need to grow the business and what the equity capital you seek will be used for. It is also critical to consider the advantages and implications of taking on equity and inviting an outside partner to join your business.

You are more prepared to raise equity if you have already assembled a team of talented folks with whom you are now working or will be upon funding. As Trevor Loy stated in a previous article, many entrepreneurs and innovators are initially surprised to learn that almost all venture

investors consider the team and the market opportunity – not the product or technology – the most important factors when considering an equity investment.

For businesses that are not yet ready for institutional investment capital, the New Mexico Angels is doing a fantastic job of guiding entrepreneurs in developing business plans and ramping up on the knowledge required to raise money from high net-worth individuals who are looking to invest in companies that demonstrate exciting prospects. TVC continues to guide entrepreneurs from the stage of considering equity to being ready to receive, and then actually getting equity capital to grow their business and pursue their dreams.

Thanks to the work of the New Mexico State Investment Council and the New Mexico Small Business Investment Corporation, the number of institutional equity capital investors available to New Mexico businesses continues to grow. Know what's available and the industries each one serves so that your chance for success will be greatly enhanced.

*Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to [www.FinanceNewMexico.org](http://www.FinanceNewMexico.org).*

