

PROVISIONS FOR RAISING CAPITAL

By Reuben Buchanan, Integral Capital Group

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Most entrepreneurial small businesses need capital to get going, but if you don't have it, and the banks won't lend it, what are your options? This article looks at the topic of raising investment or venture capital.

Venture capital, seed capital, investment capital, private equity – it's all the same thing. Money to grow your business in exchange for equity or a share in your company.

So how do you get it? Well thankfully ASIC has made provisions within the corporations act to allow any entrepreneur to safely raise considerable funds, without going to the time and expense of producing a prospectus.

It's called the 20/12 rule under section 708 of the corporations act. It allows you to raise up to \$2m over any 12 month period, from up to 20 retail investors.

It's important to understand the difference between a Retail and a Wholesale investor.

Firstly a Wholesale is defined as an individual (or their investing entity) that meets one or more of the following tests:

- Has net assets of more than A\$2.5m;
- Has income of more than A\$250k over the last two financial years;
- Is investing \$500k or more into the business

A retail investor is simply everyone else who does not meet one of the above tests.

ASIC has provided another exemption that allows you to raise up to \$5m if you use the services of a "business investment and matching service", however you are still limited to 20 investors. In our experience, this is of little value as few retail investors are able (or are willing) to part with more than \$20k or \$30k. So 20 x \$30,000 means that you are naturally limited to raising about \$500k or \$600k every 12 months from retail investors.

Of course, there is no limit on how much and how often you can raise funds from wholesale investors. They are exempt from the 20/12 rule. Be aware that ASIC requires them to provide a wholesale investors certificate. This is a standard certificate that the investors accountant must sign on their letterhead.

The other issue arises of simply how much of the company you want to let go in order to raise say \$500k. For most entrepreneurs the answer is "as little as possible". However, pricing your offer too high can cause problems down the track when you want to raise further capital, or get an offer to sell. It is also important to look after your investors, after all, they are the ones backing you. You want to make sure they make a profit – you never know when you may need them again for your next venture.

[Entrepreneurs Guide to Raising Venture Capital and Private Equity \(DVD set\)](#)

If you want to learn more about raising capital, this DVD set is ideal for you. It features 16 experts covering topics that relate directly to capital raising such as IPO's, pitching to investors, legals, financials and due diligence. [Click Here](#) to learn more.

[About Reuben Buchanan – Director, Integral Capital Group Pty Ltd](#)

[Reuben Buchanan](#) is a corporate advisor for Sydney based advisory firm, Integral Capital Group. His primary role involves raising capital for both public and private companies, of amounts between \$1m and \$20m. 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.

Previously Reuben Buchanan owned Wealth Creator magazine, which launched in 2002. (www.wealthcreator.com.au) He on-sold the business three years later to a private investor group. Wealth Creator is still highly regarded in the business sector in Australia.

Reuben is also the co-founder and director of [Think Big](#) magazine, Australia's largest personal development magazine.

IMPORTANT: This information is general and should not be taken as specific advice. Readers should always seek their own professional advice. Send your questions to reuben@integralcapital.com.au