

UNDERSTANDING VENTURE CAPITAL

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Everyday we read about companies who have raised millions of dollars of capital to fund the growth and expansion of their business. The reality of raising these sorts of funds is much more complex than the newspapers make it out.

There are many different sources of capital – getting your hands on it depends on many factors. It also requires careful planning, the right advice and the right pitch. Whether you will get it or not also depends on what kind of business you have, what stage it is at, what industry it's in, how profitable it is, how much experience you have and how the overall market is tracking.

What is Venture Capital?

The term Venture Capital means capital provided to fund a venture. Essentially venture capital and private equity mean the same thing. However there is a difference between Venture Capital and Private Equity firms. VC firms typically will look at more emerging business and industries and may get involved at an earlier stage. Private Equity firms typically like more traditional industries, and tend to like mature companies with consistent cashflows.

What is a Business Angel?

“Angel” investors are individuals who like to get involved at the seed or start up stage of a business venture. They look for very high-growth companies that also have synergy with their own business skills or network. Capital invested can be as little as \$10,000 and as much as \$500,000 initially. Follow on rounds may be an option also. The Angel will typically look to get their hands dirty by taking a small role, going on the board, or acting as a business mentor.

What is a liquidity event?

This is the event that gives the investor their money back. This is most commonly a trade sale or a public float. However sometimes the investor may get bought out by another investor, or by the original owner.

Types of Capital Available

Below are some terms that are commonly used to describe the various stages of funding:

Seed	This is at the very beginning of a companies life, often before any profit or sales is achieved. Sometimes it is used to fund the formation of the venture and its necessary components in order to get it off the ground.
Start-up	This is when the business has commenced trading but it is still in its infancy. A start up business is typically only six months or a year old.
Expansion	The company has sales, has established a market in a particular segment or location (such as Sydney) and is now requiring funding so they can expand their operations further. Sometimes the company growing very quickly and needs to scale up in order to meet market demand.

Acquisition	The company is seeking to expand by purchasing other business that are similar or synergistic in nature. The company may not have the necessary funds to do this, which is where acquisition funding comes in.
MBO/MBI	This stands for Management Buy Out or Management Buy In. It means exactly that. These are funds usually provided by a private equity firm or institutional bank which allow the existing management (MBO) or new management (MBI) to buy out the existing owners.
Pre-IPO	The round of funding that precedes an IPO, usually between two months and up to two years. Funds are sought in order to fund an acquisition, expand or pay for listing costs. These deals are only usually available to professional investors, institutional investors or high net worth individuals because the amounts involved tend to be in the millions or tens of millions.
IPO	This means Initial Public Offering and is when a company goes public on an exchange such as the ASX. This is done via a prospectus document and allows 'mum and dad' type investors to invest alongside the founders, major shareholders, professional investors and institutional investors. This is the most common way to raise large sums of money, such as \$50m or \$100m.

[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