Raising Capital – Save Time and Money With A Pre-Financing Audit

published 12/06/2010

Raising and managing capital is a business' biggest challenge, regardless of its stage of development. Whether you are a tech start-up or a successful business in expansion mode, you can sharpen the focus of your fundraising plan if you first take the time to understand the different stages of development, and the corresponding stages of financing, before deciding upon the appropriate mix of debt, equity or hybrid financing tools you may wish to utilize.

For most companies seeking to raise capital, cost and speed are the two critical factors. Investors, on the other hand, want to know and understand the business and its management team. They will want to conduct preliminary due diligence, negotiate price and terms, and then conduct full-blown due diligence. All of that takes time, and costs money. (Did I mention that these costs typically are borne by the company?)

The timeliness and the relationship-building capacity of an investor's due diligence process is, to a significant degree, within the company's control, if it chooses to step up and manage the process. By performing a financing audit in advance of executing your financing plan, you can speed up the fundraising process and significantly reduce your costs, while enhancing your relationship with your prospective investor.

The first point is that a company needs to be aware of the important role of due diligence and how it may impact the negotiations and, ultimately, the financial terms of your financing. From an investor's perspective, the structure of the deal will be aimed at minimizing investment risk. This principle carries forward into the due diligence. In the due diligence process, the investor will be focussed on pinpointing elements of business and legal risk, and then will attempt to mitigate that risk by obtaining concessions on deal terms, or by obtaining representations and, if applicable, indemnities from the company, or in the worst case, by backing away from the investment.

The second point, and it flows from the first, is that it is entirely within the company's control

 |

to get out in front of the due diligence issue, both to manage the risk in the process as well as the cost of the process.

The goal of a pre-financing audit is to conduct your own due diligence before you commence negotiations with an investor. In doing so, you can identify any weaknesses or issues in each of your risk management areas and where possible, take remedial action. And, in the course of the audit, you also are gathering all of the searches and documentation that an investor will want to independently review. This process alone can save the investor significant amounts of time, which saves you money.

Investors know that every business has its own challenges, but they don’t like surprises. Your relationship with your prospective investor can grow during the due diligence process if you demonstrate a thorough knowledge of your company’s particular challenges and are up-front about them early on in the process.

I will review some of the key areas of concern for a pre-financing audit in another post.
