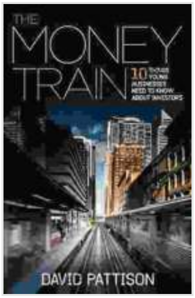
10 Essential Truths for Young Businesses Seeking Investors

Raising capital from investors is a critical step for many young businesses. However, the process can be daunting, especially if you don't know what to expect. This article provides a comprehensive guide to the 10 things you need to know about investors before you start fundraising.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10 THINGS YOUNG BUSINESSES NEED TO KNOW ABOUT INVESTORS
DAVID PATTISON

The Money Train: 10 things young businesses need to know about investors by David Pattison

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1. Who Are Investors?

Investors are individuals or organizations that provide capital to businesses in exchange for a share of ownership or a claim on future profits. There are many different types of investors, including:

- **Angel investors:** Wealthy individuals who invest their own money in early-stage businesses.
- **Venture capitalists:** Professional investors who manage funds that invest in high-growth businesses.
- **Private equity firms:** Investment firms that acquire majority stakes in established businesses.
- **Crowdfunding platforms:** Online platforms that allow businesses to raise capital from a large number of small investors.

2. What Do Investors Look For?

Investors are looking for businesses that have the potential to generate a high return on their investment. They will typically consider the following factors when evaluating a business:

- **Market opportunity:** The size and growth potential of the market that the business is targeting.
- **Team:** The experience and track record of the management team.
- **Business model:** The way the business generates revenue and profits.
- **Financial performance:** The historical and projected financial performance of the business.
- **Valuation:** The price at which the business is being offered to investors.

3. How to Find Investors

There are a number of ways to find investors, including:

- **Networking:** Attending industry events, joining business groups, and connecting with other entrepreneurs can help you meet potential investors.
- **Referrals:** Asking your existing investors, partners, and customers for s to potential investors can be a good way to find qualified leads.
- **Online platforms:** There are a number of online platforms that connect businesses with investors. These platforms can be a good way to reach a large pool of potential investors.

4. How to Pitch to Investors

Once you have identified potential investors, you need to prepare a pitch to present to them. Your pitch should be clear, concise, and persuasive. It should include the following information:

- **Executive summary:** A brief overview of your business, its market opportunity, and your team.
- **Problem:** The problem that your business solves for customers.
- **Solution:** The solution that your business provides to the problem.
- **Market opportunity:** The size and growth potential of the market that your business is targeting.
- **Business model:** The way your business generates revenue and profits.
- **Financial projections:** Your historical and projected financial performance.
- **Team:** The experience and track record of your management team.
- **Valuation:** The price at which you are offering your business to investors.
- **Call to action:** A clear statement of what you are asking investors to do.

5. Due Diligence

Once you have pitched to investors, they will typically conduct due diligence on your business. Due diligence is the process of investigating a business to verify the information that has been provided by the entrepreneur. This process may include reviewing financial statements, interviewing customers and employees, and visiting the business's premises.

6. Negotiation

If investors are interested in investing in your business, they will typically negotiate a term sheet with you. A term sheet is a non-binding agreement that outlines the key terms of the investment, including the amount of investment, the valuation of the business, and the rights of the investors.

7. Closing

Once the term sheet has been negotiated, the parties will work together to finalize the investment documents. These documents will include a subscription agreement, which is the binding agreement that governs the investment, and a shareholders agreement, which sets out the rights and responsibilities of the investors and the company.

8. Post-Closing

After the investment has closed, the investors will typically take an active role in the business. They may provide strategic guidance, help to raise additional capital, and assist with other aspects of the business.

9. Exit Strategies

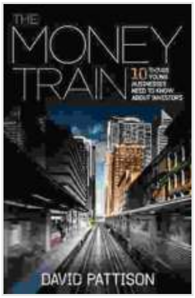
Investors will typically want to exit their investment at some point in the future. There are a number of different exit strategies that can be used, including:

- **Sale of the business:** The business is sold to another company.
- **Initial public offering (IPO):** The business sells shares to the public through an IPO.
- **Secondary offering:** The investors sell their shares to another investor.

- **Liquidation:** The business is liquidated and the proceeds are distributed to the investors.

10.

Raising capital from investors can be a complex and challenging process. However, if you prepare carefully and understand the process, you can increase your chances of success. By following the tips in this article, you can give yourself the best possible chance of securing the funding you need to grow your business.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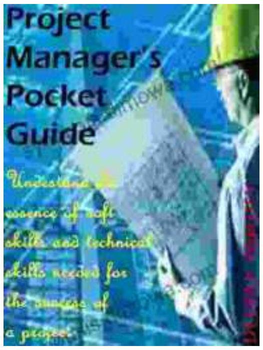

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