

Short Form Guide Funding Options for SMEs (non-IPO)

Option	Pros	Cons
<p>Reverse Takeover</p> <p>Technology companies have done reverse takeovers of mining companies in order to secure a back-door listing on the ASX.</p>	<ul style="list-style-type: none"> Can be a way to become listed without having to adhere to full ASIC listing requirements, or go through the IPO process. 	<ul style="list-style-type: none"> Can still be time consuming and expensive. Can end up being cheaper to do an IPO. Ultimately, the listed Co. has failed so you're essentially starting from scratch. Doesn't provide capital, is just opening up additional options. Still need to have a story and have investors ready that would invest except that you're not listed. Dealing with 'lifestyle directors' sitting on boards who aren't interested in either being moved off or doing more work.
<p>Sell the company (full or part)</p> <ul style="list-style-type: none"> I.e. technology entrepreneurs looking for an exit could sell to a cashed-up buyer like Microsoft, Google or Apple. NOTE – Tech valuations are often under fire. Would be prudent to make deal for cash rather than script. 	<ul style="list-style-type: none"> Less Risky than a reverse takeover. 	<ul style="list-style-type: none"> You're often selling out completely or losing control. Dilutes ownership Need to ensure timing is right for optimum value Often stages with performance milestones
<p>Commercial Debt</p>	<ul style="list-style-type: none"> Commercial debt can often be the easiest form of funding in the right circumstances. 	<ul style="list-style-type: none"> Most expensive option. Often involves mortgaging real property (even the family home) so increased risk. Without real property as security, interest rates can be as high as credit card rates, if you can even get the deal done. Banks will often only lend to those who don't really need it.
<p>Friends, Fools and Family (Debt/Equity)</p>	<ul style="list-style-type: none"> Less red tape than other options, but still needs to be documented. Will want to support you and will be less about the returns. Less due diligence. 	<ul style="list-style-type: none"> Can lose relationships and cause family friction if things go sour.
<p>Angels and High Net Worth Individuals (HNIs) (Debt/Equity/Hybrids)</p>	<ul style="list-style-type: none"> Less red tape than other options, but still needs to be documented. Ideally comes with board positions and additional skillsets and networks that can add value to the business. 	<ul style="list-style-type: none"> Loss of absolute control and some flexibility Can be difficult make contact with the right person Can be time consuming and costly to facilitate. Requires a high degree of transparency HNIs were a popular source of funds but is becoming tighter HNIs will want a decent return and will want to know that you have a great deal of risk in the operation as well. (I.e. why do you want their cash if you haven't exhausted every option for putting in your own cash or personal security for debt) Generally need a clear or defined exit

<p>Private equity / Venture Capital Funds (Debt/Equity/Hybrids)</p>	<ul style="list-style-type: none"> · Can come with board position requirements but generally adds additional skillsets and networks that can provide value. 	<ul style="list-style-type: none"> · Loss of absolute control and some flexibility · Like HNIs, will want a decent return and will want to know that you have a great deal of risk in the operation as well. (I.e. why do you want their cash if you haven't exhausted every option for putting in your own cash or personal security for debt) · Requires a high degree of transparency · Can be difficult for SMEs, but not impossible. Often need a lead time to fix up systems, processes and to document a thorough business plan and growth story. · A form of IM will likely be required. · Dilutes ownership · Generally need a clear or defined exit
<p>Mergers or Partnerships</p>	<ul style="list-style-type: none"> · Cash free way to: <ul style="list-style-type: none"> ○ Plug a hole; ○ Enter a new market; ○ Develop new products; ○ Gain access to knowledge; · Can be formal or informal. · Often accelerates growth if right partner. 	<ul style="list-style-type: none"> · Rules and boundaries need to be clear and documented. · Can be difficult to find the right mutually beneficial fit.
<p>Crowdfunding I.e. Kickstarter, Pozible, etc. 4x Types:</p> <ul style="list-style-type: none"> · Donation-based · Reward-based · Equity-based · Debt-based 	<ul style="list-style-type: none"> · Can be good for small to mid-sized amounts of funding. · Minimal red tape. · All or nothing for some. · Can work as an excellent 'Pre-order channel' · Doesn't dilute equity. 	<ul style="list-style-type: none"> · May need to divulge more information than you're comfortable with in a public forum. · ASIC Regulations for equity-based crowdfunding. · Beware of income tax and GST implications.
<p>Save for a rainy day Do you actually need funds now?</p>	<ul style="list-style-type: none"> · Cheapest form of funding · Less risky than debt etc. · Doesn't dilute equity 	<ul style="list-style-type: none"> · Little to no profit distribution for owners. · Timely opportunities may be surpassed · Slower than other forms of funding and this could be at the cost of market share.