Finding Equity Investors (*Entrepreneur Magazine* – November 24, 2003)

Q: How can I find an equity investor for my company?

A: This question often comes up regarding creative ways to attract and develop an equity investor for your business. There are numerous ways to do this, and no two investors are exactly alike, so it's important to be innovative and customize your proposal to the specific "hot buttons" for each funding source. One successful method involves leveraging a strong banking private or investment management referral on behalf of the proposed equity investor. Projects I have worked on where this concept was employed looked something like this.

A prospective investor is identified and contacted for initial discussions about the equity investment amount and timing. Naturally, there are concerns expressed by the investor about risk and ways to mitigate the downside potential of losses should the venture not perform to expectations. When it is uncovered, or previously known, that the investor is not happy with his current banking and/or investment-counsel relationships, the entrepreneur can leverage strong banking and investment advisor relationships and link these to the funding deal.

For example, we set up a deal with an investor for a proposed $400,000 equity stake in my client's new company. The investor was not happy with several aspects of poor or non-performance of service from his existing private-banking team. We structured his investment in the emerging new venture side-by-side with direct introductions to our long-time associate senior managers at a very reputable full-service private banking division of a large financial services entity. As part of the deal structure, the client would bring in $1.2 million to the new bank and have an opportunity to participate in the bank's hedge fund services. We negotiated reduced and waived fees in certain areas with the private bank on the front end and for the first year after the investor's funds were transferred and positioned in three new accounts. We also worked it out that one of the bank's leasing experts would, for no cost, do an assessment of the investor's existing equipment leases, including costs, residual flexibility and transfer-upgrade provisions. And the private bank agreed that bringing in $1.2 million would leave a net overall client balance of $800,000 for their various investment and leasing services.

Once the accounts were established in the new bank, one of the private-banking account managers also agreed to provide an objective, third-party assessment of the proposed equity position in the emerging new venture. This provided the client-investor with an additional level of due diligence on the proposed equity stake, and the bank agreed to do this for no charge. My client's company was willing to pay for this analysis, but we all agreed that it would not appear to be an arm's-length process if the firm being analyzed paid for the third-party's review. In the end, the bank agreed with our 90 percent or more of our presentation on the equity investment and offered one new facet to the investment. The emerging venture would then also open a transaction and managed-funds account with the private bank, and the $400,000 from the investor would later be transferred directly from one client account at the bank to another client account (from the investor to the venture). And we agreed that the funds would be transferred in two installments: the first at $250,000, and the second at $150,000 ninety days later. We also negotiated reduced and waived fees for the client's new venture account with the bank.

In the end, the bank picked up two new clients: one just starting out and the other a high net-worth investor with an $800,000 net new account funds for management (after the $400,000 investment in the venture). The client firm got a more secure means of executing the funding deal, which made the investor feel more comfortable, and the client firm established an important long-term banking relationship that could prove very valuable in the future. And the investor picked up valuable new leasing services and asset management, saved money on various fees and was introduced to several new opportunities for his funds. The key in doing any funding deal is to think creatively, try new things and always be willing to work with all parties to make the deal process work for everyone involved.