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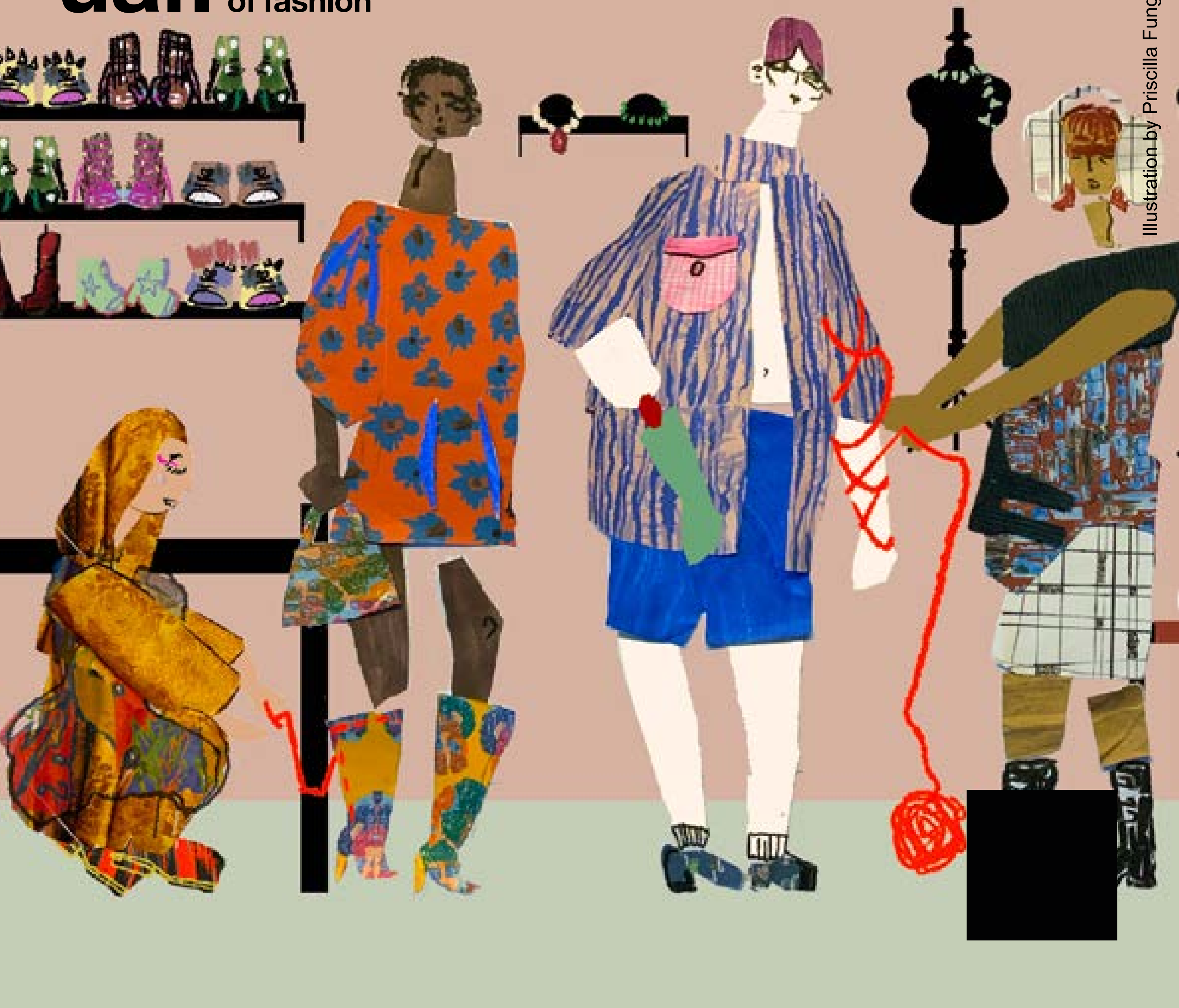


Illustration by Priscilla Fung

How to seek funding for your business

Fundraising essentials

If you are setting up your own business, there will come a point where to scale up you must raise money. Raising money may allow you to take on additional staff, manufacture more stock, market more widely, purchase equipment needed and so on. However, before you seek financial help you should ensure that you fully understand the terms on which you are receiving the money. The main different routes for funding are:

- Loans: If you are lucky this may come from friends and family or personal contacts but more likely from a bank. You will have to pay the money back (plus interest) later.
- Government / Industry grants: There are lots of small business and industry grants available. The likelihood is that you will not have to pay it back but there will often be a rigorous application process and criteria. Check this example.
- Private investment: Someone may be interested in putting money into the business/company in return for shares in it.

Preparing for fundraising

Whilst every industry professional and business will have their own individual needs and quirks; there are certain legal considerations when preparing for fundraising that are common for all. Below is a summary of some of the main considerations.

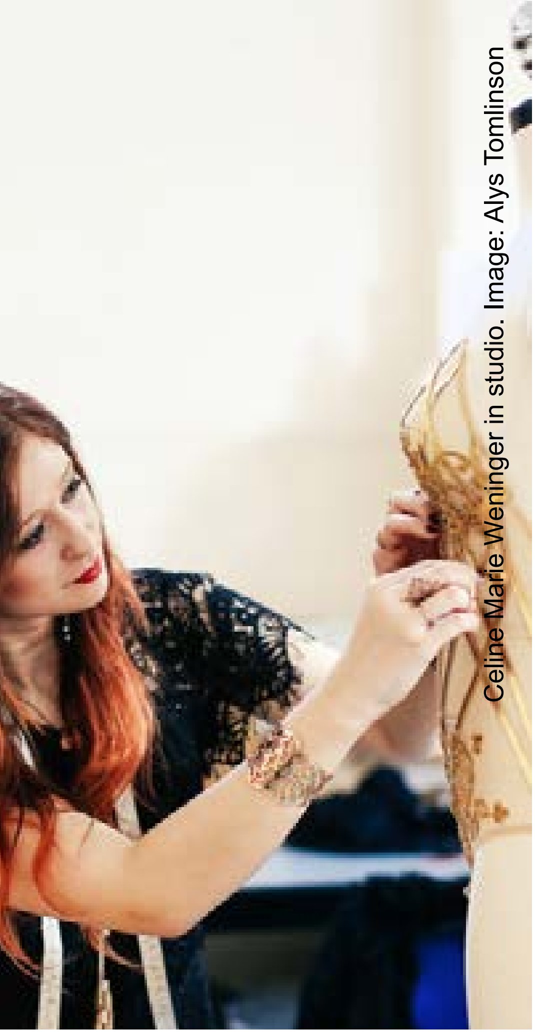
Choosing the right corporate vehicle

If you are seeking private investment, then most investors will want to receive shares for (at least part of) their investment. Therefore, they will want the business to be set up as a private company limited by shares. They will less commonly invest into individuals or partnerships. Setting up a private company is cheap and can be done instantaneously if you purchase a shelf company. For more details, check this or read the ‘How to register a business’ guide.

Shareholdings

If you do have a company set up, then ahead of any investment, you should make sure that the company's shareholding is correctly reflected in the company’s statutory books and at Companies House.

When you are starting out be wary of offering shares to employees, contractors, or interns without considering whether it is sensible from a long-term perspective. These types of informal arrangements can come back to bite and be problematic in future fundraising!



Celine Marie Weninger in studio. Image: Alys Tomlinson

Rochelle Saunders in the studio. Image: Alys Tomlinson

Also take advice from professionals on the amount of shares you are giving away and ensure that the correct legal framework is put in place including a shareholder's agreement which governs the shareholder's relationship and how decisions of the company will be made.

Professional Tax Advice

Taking on loans/investment is often relevant from a tax perspective so it is important you take advice from a tax advisor/ accountant to ensure what you are doing will not cause any problems. Tax advisors can also help put in place the best business structure that is attractive to investors. For example, there are tax-efficient ways of investing including the SEIS and EIS schemes for investors.

IP

Investors/lenders will want to ensure that the key intellectual property rights (trademarks, designs, copyright) are owned by the company. Make sure therefore that any contractors or freelancers have assigned the intellectual property to the company. Seek to register IP rights such as trademarks where possible.

Written agreements

Investors/lenders will often want to ensure that the business is trading well and is professionally/competently set up. As part of that they will expect you to have written employment agreements with your employees and with all key customers/suppliers and revenue streams.

Confidentiality

It is essential to have confidentiality agreements or NDAs in place with the investors. This will send the message that you are serious. Timing is important here – a confidentiality letter with investors should be signed as early as possible in any potential deal.

Do not disclose information too early on in your conversations with investors. Experienced investors will be expecting this so do not be afraid to ask. If you have an investment proposal document or pitch deck, then mark it as confidential and do not send to investors before they have signed an NDA.

Zoe Zanon Rives in the studio.

This Guide was written by Andrew Bravin, partner in the Digital Media, Advertising and Brands, Technology and Fashion and Design Groups at Sheridans