Equity Capital or Debt Financing for Business Growth?

Why would a small to mid-market Company look toward Equity Capital to fund their acquisition, expansion or working capital costs when there are much less expensive alternatives available to them?

FACT: A $500,000 Equity Investment will cost the company millions and reduce their control.
FACT: A $500,000 Debt Financing will cost the company thousands and preserve their control.
FACT: In a 3 year period, the cost of capital for Debt Financing is 20% of the cost of Equity Capital.

The primary concerns should be the long term costs affecting their bottom line and how the type of funding will ultimately affect the decision making process currently in place within the company. It's a no brainer to make the right decision and maintain control, while they still can.

The most expensive option for a business is a private equity investment, where the qualification and due diligence process is time consuming (90 to 120 days) and that's only if they are lucky enough to be chosen out of thousands of submissions. On the average, one out of 500 are looked at, only one out of 1000 are considered for funding, and only one out of 2000 actually see the money. On the chance that they are one of the chosen few (only because they have already proven the product in the market with very substantial sales, impressive marketing and have distribution in place) and make a deal with an equity firm by giving up a minimum of 20% ownership in the company for as little as $500,000 invested, they may regret making the deal when they finally realize what it actually cost. If they are under the impression that equity is the preferred option because there are no payments involved, think again, as equity investors almost always make their money at an exit event (the sale of the company or a buy out of the investment based on a company valuation) which typically occurs 3 to 5 years down the road. Equity investors want to get out as soon as possible because they aren't making a dime between the time they disburse funds and the exit event, therefore they look to make anywhere between 5 times and 10 times their original investment at the exit. Good advice is to buy them out as soon as possible because the company valuation will only get larger as sales grow and as a result, it will cost more to buy out the equity as time progresses. One of the main issues with an equity investment is the fact that when the exit event occurs, the cost to the company is disproportionate to the investment amount. If the investment amount was $500,000 and the company is valued at $10,000,000, a 20% buyout could be $2,000,000 at the end of a 3 year period, in a best case scenario. Finally, don't forget that the equity partner may not be satisfied with the management in place and may bring in a few of their own people to take part in the day to day activities of the business to make sure that their interests are looked after. Hopefully, the business won't be too successful or the owner(s) may find themselves on the street after being forced out and replaced unwillingly, only to find that the company they labored to build is being sold to the highest bidder.

With that said, an excellent alternative option is private debt financing which comes in a variety of formats. We consider the best format to be our RevCap Loan, an unsecured debt product which is based on the annual gross revenue of the company rather than credit history or assets. This is not to assume that credit and assets are not measured in the overall picture, but that they are not primary considerations. The qualification process requires minimal documentation and typically takes less than 30 days from start to finish. Obviously, qualified companies must have substantial existing sales (over $1,000,000 in annual gross revenue), proving over time that their product or service works in the current market, in addition to a strong management team currently in place that is capable of bringing the business to the next level. A RevCap Loan will allow the company to grow at a comfortable pace as the financing structure is very flexible regarding lending parameters and shares an alignment of interest to the success of the business in the long term, not just the next few years. When considering a RevCap Loan to provide growth capital, keep in mind that it will definitely not be the least expensive option available, but when compared to an equity investment, it's a bargain. If you add the fact that a RevCap Loan is an unsecured debt product and there are no UCC filings for liens or encumbrances on personal or company assets, no requirements for a perfect credit history, no collateral requirements, no equity requirements and no lengthy qualification process, it becomes apparent that a RevCap Loan is a viable, practical and attainable option.

For more detailed information on our RevCap Loan, and to contact us to qualify your company, go to http://executivecapitalfinance.com to review, then click on the RevCap Loan tab at the top of the home page. We look forward to working with additional qualified small to mid-market US companies and providing them with the capital needed to grow their business. We have been successful in providing business owners with acquisition and expansion financing for their companies and would like the opportunity to deliver capital to yours.

EXECUTIVE CAPITAL FINANCE

ACQUISITION & EXPANSION CAPITAL FOR U.S. BUSINESS

Newtown, Connecticut 06470 www.executivecapitalfinance.com executivecapitalfinance@gmail.com