

Investors are one way to expand your business

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Standing up and presenting your business case in front of the ferocious dragon's on the BBC TV programme Dragon's Den may seem like too much of a daunting task to many people but investors like the dragon's can be a great way to expand your business rapidly, not only financially but also utilising their expertise and business contacts.

Raising capital by selling shares or giving profits in your business is an attractive proposition to investor shareholders who are on the look out for interesting and money making ventures. They look for businesses that are scalable and give good returns in a relatively short time so that their money is not tied up for long periods. They want to maximise their investment as quickly and effectively as possible and will buy in to you and your ability to deliver and manage a good business just as much as the monetary reward for them. Remember though that at the end of the day, most investors are in it to make money and will keep this a central focus when striking the deal and drafting up agreements. Make sure you take professional advice.

You should always consider the rights which you want the new shareholder(s) to have, and it will be essential to have a Shareholder/Investor Agreement. This type of Agreement can be drafted in a flexible way allowing for the features necessary to put into effect what has been agreed between the parties. What you put into a shareholders/investors agreement is almost entirely up to you.

The starting point for what you include could be an agenda of agreed points. Matters to consider are share transfer, exit, management structure etc. A good starting point is to write down a list of assumptions taken from your business plan (you should have one) and asking "what if" questions to see how different results will affect the shareholders. The same key issues arise in many agreements and so your advisor should be familiar with drafting these documents which are generally straight-forward.

Where a complex investment agreement is necessary, both sides need to decide the role and responsibilities of the investor and what their rewards will be. Rewards can be in the form of shares, dividends, managerial involvement or profit related.

Different classes of shares may be issued to reflect the different standing of shareholders within the company and provide the investor with special rights, such as a preferential dividend.

It is very important for a company and its Directors to make sure that if a company is set up in a particular way to reward the investors then the company is, in fact, run in that manner. More clients than you might expect get caught out with this and can find themselves involved in costly litigation and having to effectively buy off the disgruntled investor.

There are many organisations that can help you with investment into your business and you can be put in touch with these by organisations such as Business Link and your local Chamber of Commerce.

On a final note choose your investor/business partner very carefully don't rush into making hasty decisions. Do your research on the individuals or companies concerned and get independent evidence to support any claims or promises made. That way you will not be scorched by the dragons!

For Business advice, speak to our specialist Marc Porritt-Allison by telephoning 01904 624185 or emailing law@crombiwilkinson.co.uk

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