Get set for growth: How to choose the right funding for your business

Bank debt? Corporate financing? Private equity or IPO? Choosing how to grow your business and who to grow it with is one of the most critical decisions you will make.

By

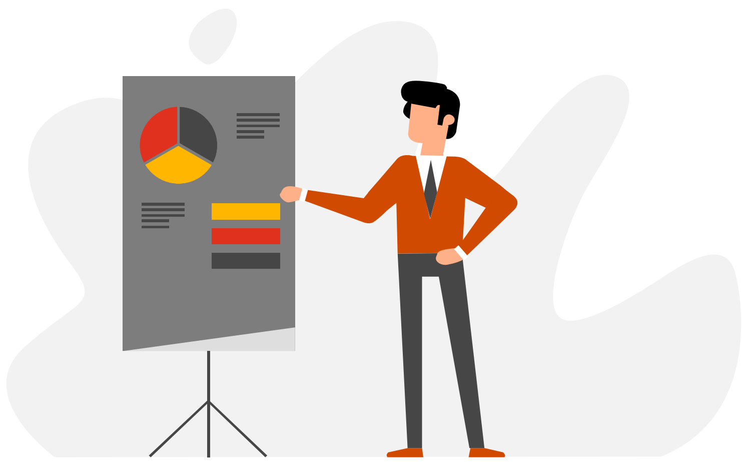
Tim Hall
PwC Private Victorian Leader

Nicholas James
PwC Private Markets Leader

Stephen Hyman
Deals Managing Director

Growing a business requires investment, and growing it well requires the right kind of investment. The question is, what type of **funding yields the best results**?

Investment options are diverse. This ranges from the more traditional sources of finance — taking on bank or corporate debt and initial public offerings (IPOs) — to non-traditional sources such as private equity and venture capital investors. Each investment option has different requirements, expectations, challenges and opportunities. In order to make the best choice for your business, you must understand the differences and how each would play out in your business.



State of play: The current lending market

The good news is that the investment space is in excellent shape, and there is real competition for transactions in the market. Traditional lenders are actively trying to grow their portfolio, with the big four banks specifically on the hunt for investment opportunities.

Further, as revealed in **our latest Australian M&A Outlook,** private equity is an increasingly desirable investor class, with investors looking to deploy record levels of capital, which is positive news for businesses looking to grow. This optimistic outlook comes with a word of warning, though — while **there is a clear upswing in deal activity** and investors are increasingly keen, they can, and will, remain discerning. CFOs and owners must understand the expectations and requirements of each investor, and above all else, they must be exceptionally well prepared. As our experts shared during **a recent CFO Connect webinar**, pre-deal preparation is the most important investment a business can make as they prepare to grow and grow well.

Traditional funding: Banks and corporate lenders

Debt financing can provide a relatively fast injection of capital without changing the business' ownership structure. It may help establish positive business credit, which itself may shore up **future growth opportunities** — resulting in significant upsides.

The flipside of debt financing is that banks are typically more risk-averse than private equity investors, interest will be progressively payable over the loan term, and because you'll be working with a relationship manager who has multiple business clients, it can be challenging to get them to buy into what you're trying to build.

If you think traditional funding is the best option for your business, the following steps can help forge a strong connection and positive buy-in from your finance partner:

Credit risk: Gain an appreciation of your underlying credit risk assessment and understand how it will reflect on the lender's decisions

Craft a narrative: Decide how to present the story of your business in a way that helps banks understand the business itself and how you're managing your risk

Communicate openly: Show you value a strong relationship with your lender by proactively engaging with them, prioritising transparency, providing clear reporting, and communicating regularly.

This commitment to clarity will make your relationship banker feel embedded and engaged in your business without some of the day-to-day input expected from other funding sources.

Alternative lenders: Private equity, private capital and venture capital

Unlike bank lenders, **private equity investors** typically expect to take an active role in any business they invest in - which may impact the current ownership structure and/or day-to-day operations. Similarly, private capital can provide alternative forms of funding along with differing levels of involvement in the business. These funders may offer attractive flexibility to business owners and the market has expanded significantly in recent years and is likely to grow further as private investors seek higher returns and compete against traditional forms of funding. What this looks like will vary according to the funding source, but your investor might seek a board seat or look to appoint independent directors. They could also consider personnel changes to help your business, **build capacity and capability**, and there will almost certainly be additional reporting expectations. Equally, private equity can bring otherwise absent executive skills, insights, capabilities and experiences to the business.

You need to know well in advance what level of input will be workable. As well as doing your due diligence on potential funding partners — looking closely at their values, preferred operating style, and track record. Talk to other entrepreneurs or CFOs who have been through a similar experience. Hearing first-hand what it's like to have a new investor actively involved in a business on a day-to-day basis is worthwhile preparation.

In addition, it's important to take a longer-term view when working with private capital. Private equity investors are typically looking to hold their investment for at least three years and up to ten years in the case of venture capital investors. You need to be sure that this aligns with your objectives and will work for your business.

Going public: Initial public offering

While **an IPO** would change the ownership structure of your business more drastically than the previous funding types, it is worth considering when weighing up your financing options. The ASX has been largely closed to IPO aspirants, but if you're serious about taking your organisation public, it is never too early to begin preparations. There is a two to three-year journey to undertake before listing and to be as successful as possible, you need to be adequately prepared.

Investment: Are you ready?

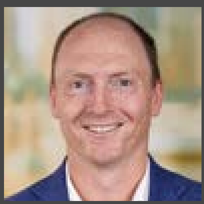
Regardless of the funding model, preparation is key, and there are crucial questions you should answer well before any decisions are made:

- What is your current debt/capital structure?
- Of the available financing options, which appears most aligned with your needs and that of your business?
- Do you need support with bank tendering and refinancing?
- Do you need support with preparing for a capital-raising event?
- How will you communicate your business' story, growth and potential to potential investors?
- How are **ESG** frameworks incorporated in your investment documentation and presentation?
- What level of involvement are you willing to accept from your investors?
- How much due diligence has been done on potential investors?
- What are the non-negotiables for investment partners to know?

Whether you're looking at bank financing, private equity or even an IPO, **your key consideration must be strong preparation**. The investment you put into the pre-deal process — documentation, risk assessment, due diligence and understanding an investor's expectations — will put you in the best position to grow your business, and grow it well.

Wherever you are on your business journey, we can help you. To find out more, visit our **Private Business Life Cycle hub**.

For a more detailed discussion, please get in touch with your PwC advisor or contact:



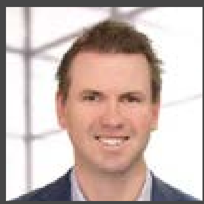
Tim Hall

PwC | Private | Partner - Tax, Melbourne, PwC Australia

+61 416 132 213

Email - tim.a.hall@au.pwc.com

in/tim-hall/



Nicholas James

PwC | Private | Markets Lead, Sydney, PwC Australia

+61 (2) 8266 2038

Email - nicholas.james@au.pwc.com

in/nicholas-james/

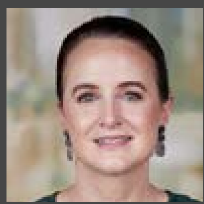
Stephen Hyman

Managing Director, PwC Australia

+61 477 331 580

Email - stephen.hyman@au.pwc.com

in/stephen-hyman/



Chelsie Harris

PwC | Private | National Leader - Deals, Melbourne, PwC Australia

+61 3 8603 1231

Email - chelsie.harris@au.pwc.com

in/chelsie-harris/