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# EQUITY FINANCING

## Created in collaboration with Kimmy Paluch of Beta Boom & Tara Spalding of Kinect Capital

## DESCRIPTION

- **In an equity investment, an outside investor will receive a percentage ownership of your company in exchange for capital.**
- **It's typically a riskier investment, and investors want to be compensated for their risk, so they're looking for exciting opportunities and big returns.**
- **Equity investment comes in many shapes and sizes, and from many different types of investors.**

**Types of investors include:**

- **Angel investors:** individuals or groups of individuals investing together;
- **Venture Capital Firms:** seasoned investors who are investing a pool of capital that comes from other sources, such as institutions (i.e. banks), high net worth individuals and families, corporations, etc.;
- **Family Offices:** some high net worth families have created their own investment firms and have an in-house team of investment professionals that invest on their behalf, either into funds and/or directly into startups (among other things).

**Types of investments include:**

- **Traditional Equity Priced Rounds:** investors own shares outright. The amount they pay for those shares is based on a specific valuation, which is agreed to at the time the investment is made.
- **Convertible Securities (i.e. SAFEs and Convertible Notes):** these are instruments that give investors the right to convert an investment into ownership shares at a future date. These allow investments to move more quickly, and are helpful when there is no current company valuation.

## HOW TO KNOW YOUR BUSINESS IS A FIT

- **You are comfortable giving up some ownership** in your company.
- **You're planning to go big...ish.** Typically, to be attractive to an equity investor, there has to be the possibility of a great return, which is usually tied to how big you grow your company, often to the $100s of millions in revenue. But there may also be instances in which companies with smaller growth targets can still be attractive investments, especially for non-institutional investors (angels, maybe some family offices), so long as...
- **There is a path to returning the capital to your investors,** ideally with a nice return to appropriately compensate the risk they've taken on as an early champion in your business. This might be a more traditional exit like an acquisition or an IPO, or it might mean repurchasing equity at a later date, dividends or distributions, royalty agreements or other less common methods of returning capital.
- **You have the appropriate legal structure:** a C-Corp (or B-Corp if you want to balance profit generation with social and environmental considerations) is often required in order to raise money from VCs and angels.

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## KEY TAKEAWAYS

- Equity investment is dilutive financing, which is any kind of fundraising where you give up ownership of your company. Dilution matters for two reasons:
  - **Upside:** Financial gain that you get from a potential increase in value of your company (i.e. the big payday when you have an exit!).
  - **Control:** Control of a company is based on ownership, which is expressed in terms of the percentage of shares of stock you have.
- Do YOUR due diligence: it's crucial to gain insight into what your relationship with a prospective investor will be like, and to make sure there's alignment and the potential for a strong partnership.
- Who you take money from today, and the way that you take it, can have a big impact on your future financing options.
- **Founder's Rule:** Give up as little equity as possible. If you use a SAFE or Convertible Note, use a pro-forma cap table to truly understand how much equity you are giving away in future priced rounds.
- Be very intentional about how much you raise. There are dangers to raising too much (unnecessary dilution), as well as too little (running out of cash, needing to raise again under suboptimal conditions).
- Fundraising takes a very long time and you have to run it like a sales process!

## RESOURCES

### Overviews & General Resources

- ★ **Kinect Capital Funding Sources Track:** Learn about capital accessibility and funding sources to grow businesses.
- ★ **Utah Women & Leadership Project:** A Bolder Way Forward on Entrepreneurship.
- **37 Angels:** Short overview of how equity financing works.
- **Tory Burch Foundation:** Resources and information on raising capital, including an interactive funding finder.

### Skill Development & Workshops

- ★ **The Raise:** Multi-week fundraising workshop designed to help women-led companies to execute a successful fundraise, covering debt, equity and everything in between.
- ★ **WeRoc/Kinect Capital:** Entrepreneurship program for women-led startups including education, mentorship, networks, and access to capital.
- ★ **Women's Business Center Utah:** Advising, training, courses and webinars to help Utah women start and grow their business.
- **EnrichHer:** 5-week accelerator program that provides support with loans, grant application strategies, or venture capital.
- **Goldman Sachs 10,000 Women:** Fundamentals of funding course explores the potential use of strategic finance to support and expand your business.
- **Scroobious:** Self-paced pitch program, live 1:1 feedback, and access to their diverse founder community.
- **SoGal Academy:** Insights that help you break into the venture capital industry and resources to support you in building your company.

### Databases & Lists of Investors:

- ★ **Beta Boom:** A 2022 list of top VC funds investing in women.
- ★ **Grow Utah:** List of Investors and funding resources.
- ★ **SheMoney:** List of Venture Capital funds, investing communities and networks, and philanthropic funds investing in women.
- **Bank of America's Access to Capital Directory:** a searchable database of funding options for women-owned businesses, including equity, various types of debt, crowdfunding and grants.
- **Global Invest Her:** Global directory of businesses founded or co-founded by women to help you be easily found by customers, investors and partners.
- **Hum:** AI-powered funding platform that connects companies with investors and lenders, and makes data-driven recommendations on the best financing options for your business based on current financials and long term goals.
- **OpenVC:** A searchable database of investors. **Hot tip:** search "female founders" to see a list of firms investing with a gender lens.
- **Outset Capital:** A list of 180+ female-founded funds.
- **Signal from NFX:** An Investing Network that helps Founders find the right investors, based on sector, stage and quality of investor.
- **VC Sheet:** Curated sheets of VC funds and investors.

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