Fact sheet – First Nations startups

#8 Equity capital raising

Capital is necessary for a startup to pay for the costs associated with its founding. Generally, a startup is unlikely to generate revenue in its infancy and will therefore rely heavily on the initial injection of capital to fund it from the outset before reaching a stage where it generates enough cash flow to survive without outside assistance.

This fact sheet considers equity capital raising. For debt financing and security, see **fact sheet #9** and for grant funding see **fact sheet #10**.

What is capital raising?

Capital raising is the process by which a company raises funds to facilitate its growth as a business, achieve a desired objective, or simply enable it to continue its core business operations. Capital raising is distinct from taking out business loans and going into debt.

Startups will often offer equity (or shares) in the company to entice investors. This is known as Equity Capital Raising. This fact sheet provides an overview of three of the more common ways a Startup may raise funds through equity capital raising.

What is equity?

Equity in respect of a startup is essentially the shares in that startup/company. To provide equity to raise capital is to exchange a portion of ownership (via shares) in the startup or company to the individual/entity that is providing the funds.

Considerations

Before raising capital, consider the aims of the Startup. Important things to consider include:

1. How much capital needs to be raised? What is the capital is being raised for? Are there any secondary costs? Is it for general costs of running a Startup? Costs may include: salaries and hiring costs, outsourcing (contractors, research, etc.), technology building and/or acquisition, software programs, cloud storage, marketing, legal retainers and fees, office space rent, utilities, parking, etc. and any licenses and permits.
2. Who are you targeting to raise funds from? Is it specific investors or the public at large (note that offers to the public at large may be regulated)? If it is a specific investor, have you done your due diligence on the investor?
3. Is equity being provided? If so, how much of the share capital is being sold? Will different classes of equity be created (i.e., shares with no voting rights)? Consider, the more equity an individual obtains, the more control of the Startup they have.
4. Will there be another raising at some point? Will previous equity or shareholdings be diluted with new share issues?

3 types of equity capital raising

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1. Crowdfunding

Crowdfunding is the process of having large numbers of people/entities fund a startup, usually through the internet.

This form of capital raising was originally built on the premise of being a "patron" of a startup, with investors typically not wanting any equity, only the sense they have assisted in some form. This is known as crowd-sourced funding. Another form of crowdfunding is called equity based crowdfunding. The distinction for equity based crowdfunding is that investors will be provided with a form of equity (i.e. shares in the startup) for their investment funds, much in the same way an investor will purchase shares in a company on a stock market.

There are particular laws and rules that apply to Equity Based Crowdfunding.

2. Angel investing

Angel investing is when a startup is provided significant resources from an individual or company that believes the project will succeed. Angel Investors will provide this capital at an early stage of a startup, in exchange for equity in the startup.

Angel Investors may seek some further control of a startup. Founders of a startup should therefore conduct their own due diligence on any individuals who are unknown to them and wish to invest significant amounts of capital in the startup.

3. Convertible notes

Offering convertible notes is another manner of raising funds in the early stages of a startup. These are loans by individuals or entities that have invested in the startup but may be converted into equity (shares) upon certain milestones being met, or at the election of the noteholder. Convertible Notes may have a "maturity date" where the loaned funds need to be repaid by.

Raisings under the *Corporations Act 2001 (Cth)*

The *Corporations Act 2001* (Cth) sets out the laws and regulations dealing with business entities in Australia, including how businesses may raise funds from the public. If a company is seeking to raise significant funds from the public, they should seek legal advice to ensure they are complying with their legal obligations.

Please see our other Fact Sheets for First Nations startups here.

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