

EQUITY INVESTMENTS



Securing equity investment is often a key milestone for a new business. As well as the obvious financial benefits, taking an investor on board represents an endorsement of you, your team and your vision for the business. An experienced investor may even bring a range of skills and contacts to help accelerate the business's growth.

Obviously, the commercial terms (investment amount, valuation, percentage shareholding) attaching to the investment need to be right, but you should also think about what your relationship with the investor will look like going forward.

For example:

- **Decision Making**

Are you dealing with an entirely passive investor, or will your investor want a seat on the Board and expect to be involved in day to day decision-making? Alternatively, will your investor remain largely silent but look for a veto right around certain reserved matters?

- **Exit**

All investors will be looking for a return, and often that return will come on a sale of your business. Making sure that your goals (in terms of the likely timing and source of an exit) are aligned with your investor's goals is important. It is also important to make it clear in the documentation what level of shareholder approval is needed to make an exit happen, so that minority shareholders cannot hold up a deal.

- **Information Rights**

Your investor's reporting requirements also need careful consideration. At a practical level you need to ensure that the company has the right systems and resources in place to allow it to capture and present appropriate data to its Board and investors as required. Usual requirements are for monthly or quarterly management accounts, coupled with sales and cashflow forecasts, and regular meetings on performance against the business plan.

These (and other) "relationship points" are just as important as the headline commercial terms of the investment and will benefit from detailed consideration before you settle the term sheet or offer letter.

At Davidson McDonnell we have helped many client companies secure investment at all stages of growth. We believe that getting the right advice at an early stage can help to smooth the investment process and get the best terms agreed on time and on budget.



If you have any queries, or would like to discuss anything with us, please contact:



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