Raising Equity Capital – A Quick Guide

by Mark Rainbird, Managing Director, Funding Strategies

In Australia there are two ways to raise equity capital – one via Disclosure and the other via Non-Disclosure. Equity capital is raised via the issuing of shares for cash.

Raising via Disclosure requires the company to issue an Offer Information Statement (OIS) or a Prospectus. These documents need to be submitted to and approved by ASIC (Australian Securities & Investments Commission). The cost of producing a Disclosure document is generally higher than via non-disclosure due to the legal and compliance obligations. Generally a company can raise as much equity capital as they wish (subject to shareholder approvals etc.) via this route and the company can advertise to the public in order to raise the funds. Most companies raise via Disclosure if they are going to list on the stock exchange, for example.

Likewise there are two options if raising via Non-Disclosure, and those are the Small Scale Offer and the Excluded Offer. Under both of these options, the company cannot advertise to the public and there are strict restrictions and penalties regarding share hawking, advertising and cold calling. Generally raising under Non-Disclosure is cheaper than raising equity under Disclosure due to the lower compliance costs.

Under a Small Scale Offer, a company can raise up to $2m and can only have 20 retail investors every (rolling) 12 months. The 20 retail investor rule is sometimes referred to as the "20/12 rule", ie 20 retail investors every 12 months. A Class Order also allows companies to raise up to $5m if they raise via a Class Order Operator.

Under an Excluded Offer, a company cannot approach "retail investors", and can only approach sophisticated and professional investors. Under an Excluded offer the company can generally raise as much capital as they need but are obviously restricted on who they can approach.
While on the face of it the capital raising options seem simple it is actually quite a complicated field.

Capital raising is in Australia is conducted under the Corporations Act and as such carries criminal penalties for not getting it right. More information on fundraising can be found at the ASIC website: http://www.asic.gov.au/asic/asic.nsf/byheadline/Road+map+fundraising?openDocument

The diagram below illustrates a Company's general capital raising options.

Given the complexity and the various advantages and disadvantages of using any particular method we recommend you review your funding strategy with a reputable advisor or capital markets firm.

Funding Strategies (www.fundingstrategies.com) is a Capital Markets firm that specialises in funding strategies and investor ready services, equity and debt capital raisings and providing investment opportunities for investors.

Dr Mark Rainbird (http://www.linkedin.com/in/markrainbird) has more than 20 years experience in senior executive roles, including Chairman and at board level in private equity, ASX-listed, both government and non-government, and unlisted organisations. Mark has extensive experience in business advisory, capital raising, funding strategy development, planning and execution, and specialises in the technology, resources, financial services and property sectors.