



When Should Your Business Approach the Capital Markets?

A guide by Regius Capital —————

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Introduction

Two businesses in the same industry decide to raise money in the same year. One raises its required value quicker with the interest of more investors. The other raises at a slower pace than expected. From the outside, the two businesses looked similar. Businesses that succeed approach the market when certain conditions are aligned: readiness, need, and market conditions.

This guide walks through each condition, what it looks like in real business situations, and how to know when yours are in place.

1. Readiness

Readiness is the foundation. It is what lets a business negotiate with investors from a position of strength. A ready business sets the terms of the conversation.

Three things make up readiness.

Strategy. A clear direction. What the business is building, why now, and how the money advances that plan. If the strategy changes every few months, or if senior leaders describe it differently depending on who is asking, investors notice.

Financials. Audited financial statements, honest forecasts, and a track record that investors can review with confidence. Being profitable matters less than being clear. Investors can work with growth. They can work with risk. They cannot work with information they do not trust.

Story. A version of the business that a serious investor can understand in one meeting and repeat to their colleagues in the next. It should answer why the business is worth investing in and what the money will do.

2. Need

Money should be raised for a specific reason, not because it is available or because other businesses are raising.

Strong raises are built around a clear plan; expanding into a new market, replacing expensive debt with cheaper debt, funding a project that will produce a clear return. Growing at a pace that internal cash flow cannot support.

Weak raises are built around vague ambition. Telling investors the money is for "general business purposes" signals that the business has not yet decided what to do with it and investors are not inclined to fund such raises.

3. Market Conditions

Market conditions are the third factor and are often the ones businesses control the least. But paying attention to them affects the price and terms a business offers.

Investor interest in your sector. Are investors actively looking to invest in businesses like yours right now? Sectors go through waves. Raising during a wave of investor interest produces better prices and more competition among investors.

The interest rate environment. For raises involving debt, the interest rates attainable directly shapes the cost of borrowing. When rates are high, businesses often choose shorter loan periods or wait until rates ease.

How your sector is viewed. The general opinion about your industry matters. A business raising during a period when its sector is well regarded benefits from that. A business raising when its sector is not attractive will reflect in the pricing and/or in the difficulty of getting investors to commit.

Making the Call

The three conditions rarely align perfectly. Businesses that wait for perfection wait forever.

What matters is that all three are meaningfully in place. Honest assessment of relevant parameters before deciding to raise gives the business time to close any gaps.

Businesses that end up on the wrong side of a raise rarely lack ambition. They lacked the discipline to check themselves against these three conditions.

This guide was prepared by Regius Capital. To discuss a capital raise or explore how these conditions apply to your business, get in touch with us

✉ investmentbanking@regiuscapital.ng

🔗 www.regiuscapital.ng

