



4 ways of custom financing an acquisition

Acquiring a business often requires a financing package involving several sources of financing. This can be a complex undertaking, especially in cases that require over \$500,000, and many entrepreneurs would be well advised to seek outside advice. There are management consulting companies and accounting firms that specialize in acquisitions.

Because of their experience and contacts with financial institutions and investors, these consultants can often find people quickly who are interested in your project. Getting them involved at the beginning of the planning stage of an acquisition greatly simplifies the tax aspect.

In the majority of cases, there are four types of lenders and investors you can turn to.

Lenders interested in fixed assets

Acquiring a business often involves the purchase of buildings or equipment. Your tax expert might suggest that you get a separate bank loan for this part of the project, either from your current bank or, depending on your situation, jointly with other financial institutions.

Thanks to the [Canada Small Business Financing Act](#), it is much easier for small businesses to convince their bankers to lend them the money since 85% of term loans up to \$250,000 to acquire fixed assets are guaranteed by the federal government.

Lenders interested in the whole package

BDC often supports expansion projects with its term financing. Unlike conventional loans, this formula allows flexible repayments (graduated or seasonal) and the loan is not called without a valid reason.

Companies that have a competitive advantage in a fast-growing industry should consider [subordinate financing](#). With this formula, financial institutions often offer higher amounts and accept subordinate security but require a higher return and may ask for royalties on future sales or stock options.

Equity investors

Depending on your situation and the amount you require, you can also look for [venture capital](#) where, in exchange for a significant portion of the capital stock and representation on the board of directors, your investor becomes a valuable financial partner. The Strategis site has an [information guide](#) on this subject.

It is usually investment banks, institutional investors, labour-sponsored venture capital funds, and private mutual funds that offer this type of financing.

What is interesting about these institutions is that they invest in all types of industries and sectors. However, they select very carefully, choosing only businesses that have excellent growth potential.

Sometimes technology-oriented venture capital companies consider acquisitions. They will look favourably, for example, on the acquisition of a leading-edge business whose product or products are almost ready to be marketed and are a good fit with those of a more mature company.

Strategic investors

There are strategic investors for all types of businesses and they are better equipped than general investors to quickly understand the subtleties of a particular industry.

They may be groups of professionals in a specific industry who are well informed about what is happening in their market, and are therefore quicker to recognize the opportunities due to their understanding of the risks involved.

Large corporations are also acquiring more and more equity in companies whose growth they wish to support. Their aim is to focus on their basic competencies, while benefiting from the success of a partner exploiting a promising niche in their industry or sector.