AFFIN GEM™

Grow Big with Best-Fit Funding

Grasping the basics of business financing will go a long way towards helping manage the operational costs and capital expenditures needed to sustain and grow your business. The choice often depends upon which source of funding is most easily accessible for the company, its cash flow, and how important maintaining control of the company is to its principal owner.

Here are the key differences between **DEBT FINANCING** and **EQUITY FINANCING** to help you decide which one would work best for your business goals:

Debt Financing
Involves financing/borrowing money and paying it back with interest/profit.

Equity Financing
Involves selling a portion of a company's equity in return for capital.

Cash Flow

If your cash balance is running low, for instance, when your priority is operating cash flow requirements, consider debt financing as the faster alternative to raise funds.

Equity financing usually involves a longer time frame; for example, the issuance of shares requires regulatory approval, and there are many legal and procedural issues involved.

Debt-to-Equity Ratio

Consider your Debt-to-Equity Ratio to weight the relative merits of debt vs. equity. For instance, you may want to avoid diluting your stake in the business by opting for debt financing.

On the other hand, you need to consider equity financing for your upcoming capital expenditure in order to maintain a healthy Debt-to-Equity Ratio.

Risk Appetite

Paying a maturity debt may sometimes lead to difficulties for business cash flow. If you have a strong appetite for risk, rolling over or refinance the existing debt may make more sense business wise.

Equity financing to cover a maturing debt may be feasible in certain circumstances, if the amount is very large or if the business owner is risk adverse and wants to avoid future interest/profit payments.

Debt/Equity Commitments

As a prudent businesswoman, you may want to consider debt financing if the amount is unusually large or is impacting your operating cash flow.

Equity funding for ongoing interest/profit and dividend payments may be considered under exceptional business conditions.

Profit Margin

Your profit margin will be a major consideration in your decision to opt for debt or equity financing.

Equity financing for the purpose of financing the operating cash flow of a business should only be considered in extreme circumstances.

Capital Market Conditions

Consider the availability or affordability of various forms of financing, which is usually contingent upon the state of the local and global economies.

In a market recession, for instance, both debt and equity financing may dry up temporarily.

Creditors' Expectations

Debt financing investors, or financiers/lenders, have no other interests in your business except your viability and ability to pay.

However, equity financing investors may have expectations beyond the usual return on capital. They may have social or global issues to take into consideration.

In short, the way you fund your business depends on various competing factors and should be determined based on your long-term business goals. To that end, AFFINGEM was introduced exclusively to help women entrepreneurs **Grow, Empower,** and **Manage** their businesses.

Find out how we can help you by reaching us at smecare@affingroup.com.

Source:-
1. "What is debt financing vs equity financing", an article from wallstreetmojo.com
2. "Equity Financing vs. Debt Financing", an article from investopedia.com
3. Debt vs Equity Financing", an article from corporatefinanceinstitute.com

How to enjoy AFFIN GEM™ benefits?

STEP 1

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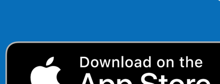

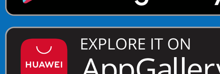

STEP 2

Select AFFINGEM

Download our award-winning SME Colony app to find out how AFFINGEM can assist you to grow and achieve your business milestones.

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