Brooke Chase®
M&A Referral Services

Debt or Equity Capital: Which is Best?

When raising capital, it can be difficult to decide whether to take in debt capital or equity capital. There are different times in a company's life cycle and circumstances that may make one option more attractive than the other.

Equity Capital

Equity capital transactions involve an individual or entity purchasing ownership in a company. The company receives funds from the investor, and in return, the investor owns part of your company.

Advantages

- The capital a company receives is permanent capital, and generally does not have to be paid back
- Equity capital has great flexibility with regard to structure

Disadvantages

- Dilution
- Often used to give preferential or disproportionate rights to investor as opposed to existing stockholders
- Difficult to remove or eliminate troublesome equity holders

Debt Capital

Debt capital transactions involve borrowing money from a lender, and paying that money back to the lender over a set period of time, as well as interest.

Advantages

- Lender does not have vote with regard to corporate matters
- No dilution
- The fixed return permits a company to arbitrage between the increase in value the capital will create, and the fixed price they have to pay for that capital

- *Disadvantages*

- Has to be paid back
- Is senior to all equity
- May restrict actions by existing stockholders