2. Corporate financing sources

How can your Company finance its funding needs?

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Funding acts as the main fuel for every business. Companies may need funding to finance a number of possible different purposes, namely:

- Mergers and acquisitions
- Enter new markets
- Expand production capacity
- Develop new products and services
- Research & Development
- Manage working capital
- Develop long term goals
- Business creation
- Boost exportation
- Corporate restructuring

To meet the funding needs, companies have at their disposal, a wide range of alternatives, which can be grouped according to two classifications:

Equity / Debt – Addressed in this section; and

Public /Private – Covered on Section 3 – Market Based Financing.

	Comparative Advantages	Possible Routes	Sources
Equity	No repayment obligation	Public funding	Public Offers (IPOs and SPOs)
	Accessible for riskier business profiles	Private Funding	Private Placement (with Institutional Investors)
			Family Office
	Solvency		Investors/ Companies
	Networking		Private Equity
			Mezzanine debt
Debt	Tax deduction	Private placement	Commercial paper
	Maintenance of share interest	Public offer	Bonds
	Simpler and faster process	Direct borrowing from financial institutions	Bank loans

See detailed table

	Comparative Advantages	Possible Routes	Sources	Pros
Equity	**No repayment obligation** On equity issuances there is no repayment plan for the money raised. Increases the company's net worth and improve its risk profile before the stakeholders (e.g., suppliers, banks, customers, etc.), which enhances the company's ability to obtain more funding in the future.	**Public funding**	Public Offers (IPOs and SPOs)	. Being addressed to both institutional and retail investors, public offers reach a wide range of possible investors which more than often results in higher demand and consequentially, a higher share price. . Public offers are often received with some hype among analysts and in the media, which in its turn increases the company's notoriety and attract new stakeholders. . More entrepreneurial independence is retained compared with private funding . Gives the company easier access to alternative sources of capital in the future . Enables access to larger amounts of funding
	Accessible for riskier business profiles Equity investors have a wider range of risk profiles. This means that the less risk averse investor may be willing to back investments which would be considered too risky by debt investors.	**Private funding**	Private Placement (with Institutional Investors)	. Access to funding with greater ease of execution when compared to an IPO . Issuance process is faster and less expensive than an IPO
			Family Office	. Shared values and long-term perspective . Investor doesn't normaly interfere in decision-making, even after acquisition . Speed of execution
	Solvency Debt involves a higher risk of insolvency, as during hard financial periods companies are still required to pay lenders, which increases the probability of default and bankruptcy. Equity bears lower financial risk, as it does not involve mandatory distributions/repayment.		Corporate Investors	. Speed of transaction and one-go transaction . Greater privacy both pre- and post-deal . New growth opportunities from being part of a bigger Group
	Networking Issuers can build strong relationships with their shareholders, who can provide exposure to their networks of industry connections and become a great source of experience, advice, and insight.		Private Equity	. Speed of transaction . Greater privacy both pre- and post-deal . Greater confidentiality regarding deal value and liabilities associated with the business
			Mezzanine debt	. Flexibility to determine taylor-made conditions and repayment schedule
Debt	**Tax deduction** Debt interest paid to lenders is tax deductible, lowering the actual cost of the loan and thus benefiting the issuer. On the other hand, dividends paid to shareholders are not tax deductible in Portugal.	**Private placement**		
	Maintenance of share interest Regarding debt financing, issuers do not give up any share interest in the business, whereas in equity financing the business ownership of the initial owner may be diluted (even though in the future they may benefit from a value increase resulting from the growth of the company).		Commercial paper	. Simpler process . Speed of execution
			Bonds	. Highly predictable cash-flows
	Simpler process and Faster Debt issuers tend to receive funds more quickly and the process is usually simpler. It generally takes longer to attract equity investors and issuers need to negotiate the terms of the deal and	**Public offer**		

Most types of funding fall in one of these two financing methods: Equity financing or Debt financing (although there is also the option to issue "hybrid" securities, which combine both debt and equity characteristics). Sometimes, it is difficult for companies to determine the most adequate way to fund their business, however, the answer is usually not about choosing between one or other type of funding, but rather achieving the best equilibrium, in the medium and long term, between Equity and Debt, in such a way that the value of the business is maximized.

Aspects that should be considered are:

Equity Financing*

The big trade-off is giving up a stake of your business' ownership in exchange for capital. Nonetheless, remember that bringing a new shareholder to the business also unlocks new knowledge and a wider network. Additionally, this form of financing does not put on the company the burden of future mandatory payments and allows the company to strengthen its risk profile on the eyes of stakeholders, by improving financial ratios, which in turns can have an important role in obtaining funding in the future.

*Equity Financing: Considering only equity entrances from new shareholders.

Debt Financing

Does not require the shareholders of the Company to give up a part of ownership or control, but it involves agreed regular repayments to lenders, including the cost of associated interest, and often imposes restrictions to management decisions while the debt is being repaid. The terms of each facility and the associated collaterals if required are negotiated with the lender on a loan-to-loan basis and will vary.

Advantage
Lowers bankruptcy risk and improves financial ratios
No obligation to pay funds back
Investors don't expect immediate ROI
Flexibility for defining dividend payment
Doesn't need collateralization
Gain access to investor networks
Gain notoriety by divulging the financing operation in the media
Enables shareholders to keep full ownership

No obligations after paying debt back

Tax deductible costs

Short and long term options

Ultimately, the Equity versus Debt decision relies on several factors, such as the current economic situation, the Company's existing capital structure, the business' life cycle stage and business model, as well as the average financing structure in the sector of activity, among others. Both Equity financing and Debt financing can be sources of funding for a Company. The correct answer will depend on the Issuer's profile and needs:

As per company profile

Equity may be the best option if:	**Debt may be the best option if:**
· The Issuer has a limited financial history	· The Issuer has consistent cash flow and a reliable business model
· The Issuer has lack of collateral	· The shareholders wish to remain the only owners of the business
· The Issuer does not want to bear the burden of regular repayments	· The Issuer prefers a short-term relationship ending once the loan is fully repaid
· The Issuer has plans for growth and expansion, requiring large amounts of capital	· The Issuer easily manages cash flow and forecasts expenses, by knowing in advance how much principal and interest will be needed to pay
· The Issuer would benefit from the experience and skills of new investors	

As per intended use of funds

Equity may be the best option for:	**Debt may be the best option for:**
· Finance long term impactful projects	· Finance short to medium term projects
· Finance internacionalization	· Finance purchase of inventories
· Finance new products or business segments	· Solving short to medium term treasury needs
· Finance M&A	

How are Portuguese companies are financing themselves?

Portuguese companies have been using equity and debt issuances to raise capital to fund their growth strategies. Some reasons Portuguese companies stated to choose one or another are as follows (please refer to section Business Cases for some insights on specific cases):

Equity

▶Raise funding to finance strategic M&A activities;

▶Enhance the Issuer value proposition through an increased level of autonomy, moving from a parent-subsidiary relationship to a diversified investor base;

▶Set a solid foundation to improve future liquidity and strengthen credit ratios over the years;

▶Reinforce balance sheet position towards pre-Covid-19 pandemic levels, reaching a more balanced capital structure;

▶Establish own distribution networks in territories close to customers and set up production units in order to become an international Company.

Debt

▶ Diversify the sources and types of financing, as well as investor base;

▶Extend the debt maturity profile, in order to be closer to future cash flow generation;

▶Strengthen the Company's capital structure;

▶Finance and refinance projects and M&A activities. In particular green debt securities have been chosen to finance green projects related with renewable energy production and improvement of energy efficiency;

▶Reducing the cost of debt;

▶Set a solid foundation to improve the Company's future liquidity.