RecruitHub

Quick-start guide to recruitment start-up funding

The RecruitHub team complements founder skills and experience with the expertise necessary to building thriving, successful ventures.

Contents:

1. Introduction

External funding to launch a recruitment business is surprisingly accessible, and the process of securing investment is much faster and more straightforward than many other industries.

As a start-up founder, you don't have to sign away control of your business or an eye-watering chunk of your future profits and rewards either – the average investor stake for customers launched on the RecruitHub platform with seed capital sits within a range of 5% – 25%.

That means all founders are majority owners of their businesses with total control.

Rather than gambling on a new product or concept, investors in recruitment ventures are investing in your ability as the founder to re-create (and hopefully exceed) the success you have achieved within agency environments as an employee. Your track record provides evidence to investors that you have generated results before, and with the right support you can stand a high chance of replicating and improving on these through your own company.

You're also likely to have significantly lower investment requirements than other industries, with the majority of capital going towards keeping your bills paid while your new agency's revenues ramp up in the first year of trading.

On top of this, carefully-structured investment models and government tax incentives to encourage start-up investment can make your company even more attractive to investors, enabling you to launch while giving away minimal equity.

Many of the recruiters we speak with regularly who are keen to explore starting their own agencies lack key information on the options available for them to receive funding to launch.
We have prepared this resource to help future founders better understand the routes and models open to them, and to make the best choice for themselves and their business.

Please note that this guide is produced and shared for informational purposes only and should not be considered investment advice.

2. Equity Financing

Equity financing means the sale of shares in your business to investors in exchange for cash. It's one of the most common routes for launching start-ups, but there are several types of investor and investment model to choose between.

The options at launch

1) Minority shareholding

Owners of some existing recruitment agencies and various investment vehicles offer funding packages which enable founders to pay themselves a salary during launch, sometimes claiming to invest north of $250k.

These propositions typically position the investment as an opportunity for you to become a recruitment 'entrepreneur', but the reality is often that you may be a minority shareholder in the start-up, working as part of an umbrella brand and effectively reporting to the investor. This can mean lots of operational controls and limited ability to raise funds independently or even exit the business on your own terms.

Under this type of structure, the investment terms are typically not designed with the goal of maximising your equity position. They instead favour the investor by handing them the lion's share of the short and long-term rewards – rewards which only grow and grow as your start-up becomes more successful.

These types of models can suit founders that want a lot of operational guidance and don't mind givin g up the controlling share of equity or operational independence, but are less likely to be a fit if you want full control of your company, your profits and the long-term value of the entity you build.

If going down this route, it's important to look out for large 'overhead' costs which can be part of these deals – we've seen fixed charges in excess of $8k per month to provide operating infrastructure to an individual founder.

2) Angel investors

Angel investors are individuals – often high-net-worth professional individuals or experienced investors – who invest in early stage businesses in exchange for a shareholding.

This can be an excellent route for start-ups if you are able to clearly and convincingly demonstrate significant future reward to investors through high quality financial forecasting and business planning, or by connecting with angel investors via a trusted intermediary.

It can, however, lead to disappointing valuations and offers if direct investors sense inexperience they believe they can leverage to push for a better deal, or reference their own professional experience (for example a background in the recruitment sector) to demand a larger shareholding in comparison with other funding sources.

RecruitHub works with a syndicate of angel investors who have experience investing in recruitment start-ups, but importantly do not come from the recruitment industry.

This allows founders to receive investment from sophisticated investors familiar with the market and its underlying commercial structure, typically investing at double the valuation of other sector-specialist investors (i.e. founders give away half as much equity for the same cash investment).

3) Friends and family

Personal networks are an often-overlooked source of funding for start-ups that have many benefits.

Firstly, most friends and family members will trust you and want to help you succeed independently of any financial return, which can create a valuable supportive environment.

Secondly, many close acquaintances will have watched your career in the recruitment sector, have witnessed the success you've built for somebody else, and be excited about the possibility to invest in your future venture.

Funding sourced through these channels can also often be secured on more flexible, favourable terms, allowing some breathing space as your company begins to trade.

All investment through friends and family members should, of course, be supported by professional contracts to ensure that there are legally binding agreements in place to mitigate against any unwanted friction that could be caused by unclear informal arrangements.

RecruitHub helps founders source funds from their personal networks, sometimes alongside angel investors, providing founders with investment documents for both parties.

How to maximise your equity at launch

Any deal you agree with investors will be based on an initial valuation of your company, determining how much equity you give away in exchange for the investment.

Many factors can shape this, and the more you can do to retain a strong initial equity position, the more you will benefit financially as your company becomes successful.

1) Co-invest

Investors will want to see that you have some 'skin in the game' – that you are sharing some of the risk that they are taking by putting their money into your new business.

If you are in a position to take a lower salary out of the business in the early months or otherwise invest financially in your business (for example by living off cash savings for the first few months), investors will be reassured that you believe in yourself and the long-term value potential of your business enough to make a small financial sacrifice in the short term. This will mean they give you a larger valuation, and even 1 or 2 months' salary sacrifice can make a difference here.

2) Present good financial forecasts and a clear business plan

Investors will want to see that you are able to create realistic financial forecasts and manage investment funds effectively to build a profitable business without running out of financial runway.

A well-structured business plan demonstrates that you know where the addressable market opportunity is and how your proposition will win clients.

RecruitHub works with all founders to build professional financial forecasts and business plans which can be presented to investors in a clear and compelling format.

3) Demonstrate strong customer (and potential customer) relationships

Do you know where you will source your first client from (without breaking restrictive covenants)?

The clearer you are about who your first target customers are and how you will win them, the better chance you have of success.

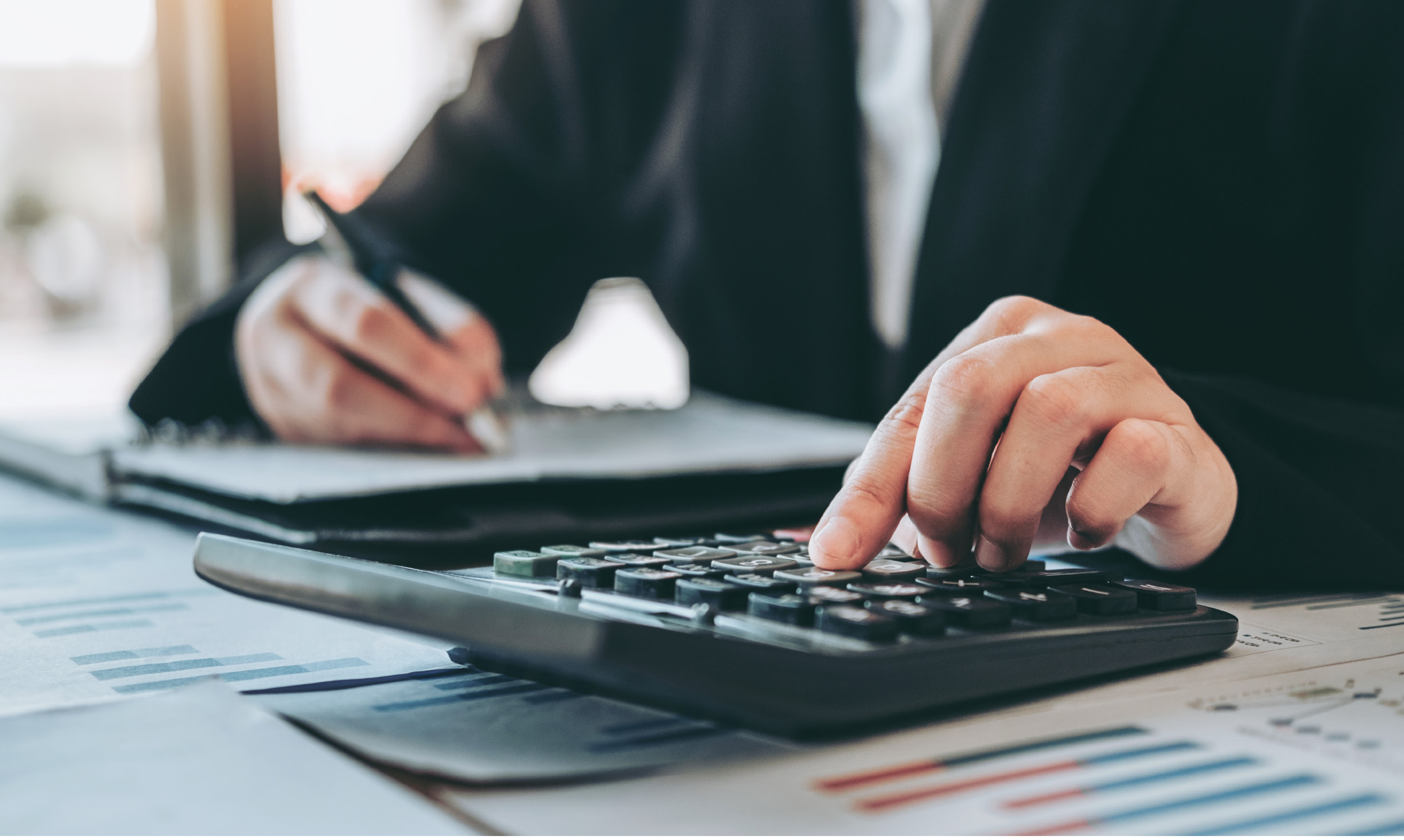
Investor confidence is directly influenced by the risk of failure of the venture in which they are investing. If your business plan relies heavily on assumptions, untested ideas or other 'leaps of faith' the investors are required to make, it will negatively impact valuation and leave you owning less of your start-up.

4) Leverage tax incentives

Government start-up investment schemes (such as SEIS in the UK) can help investors by enabling them to claim tax back for part of their investment, as well as providing additional protection against losses should your start-up venture fail.

This 'safety net' for investors means they are willing to take risk without needing as much 'upside' in the form of a large equity stake – increasing the equity you keep in your businesses after the fundraise.

RecruitHub has experience launching agencies under these models, allowing founders to access investment capital for significantly lower rates than non-incentivized models.



3. Debt Financing

Debt financing refers to money loaned to the business, to be repaid in future in accordance with a loan agreement.

The key difference between debt and equity financing is that loans do not require founders to sell shares in their start-ups. They do, however, create a future obligation to meet repayments.

1) Personal loans

You may be able to unlock assets to raise debt financing cheaply, for example by re-mortgaging properties or other assets.

This can provide you with a low-cost source of capital without the need to give away any shareholding.

Unlike equity investment, you won't be sharing the risk or the upside, so if you are able to take more financial risk this can be a very attractive option.

2) Start-up loans

Some government-backed lending schemes for founders will provide business loans prior to revenue – most other lending models and platforms require some trading history in order to decide whether or not to issue a loan.

Government start-up loans in the UK can provide up to £25k per director, but as the director you are personally liable, and funds can't be used for director salary.

3) Friends & family

As with equity, many friends and family are willing to provide start-up capital as a loan without the conditions or interest cost that an external financing company would require.

Similar rules apply here – it's always advisable to agree any loans with professional, legally-binding documentation, and to avoid any and all grey areas which could become a cause for dispute later down the line.

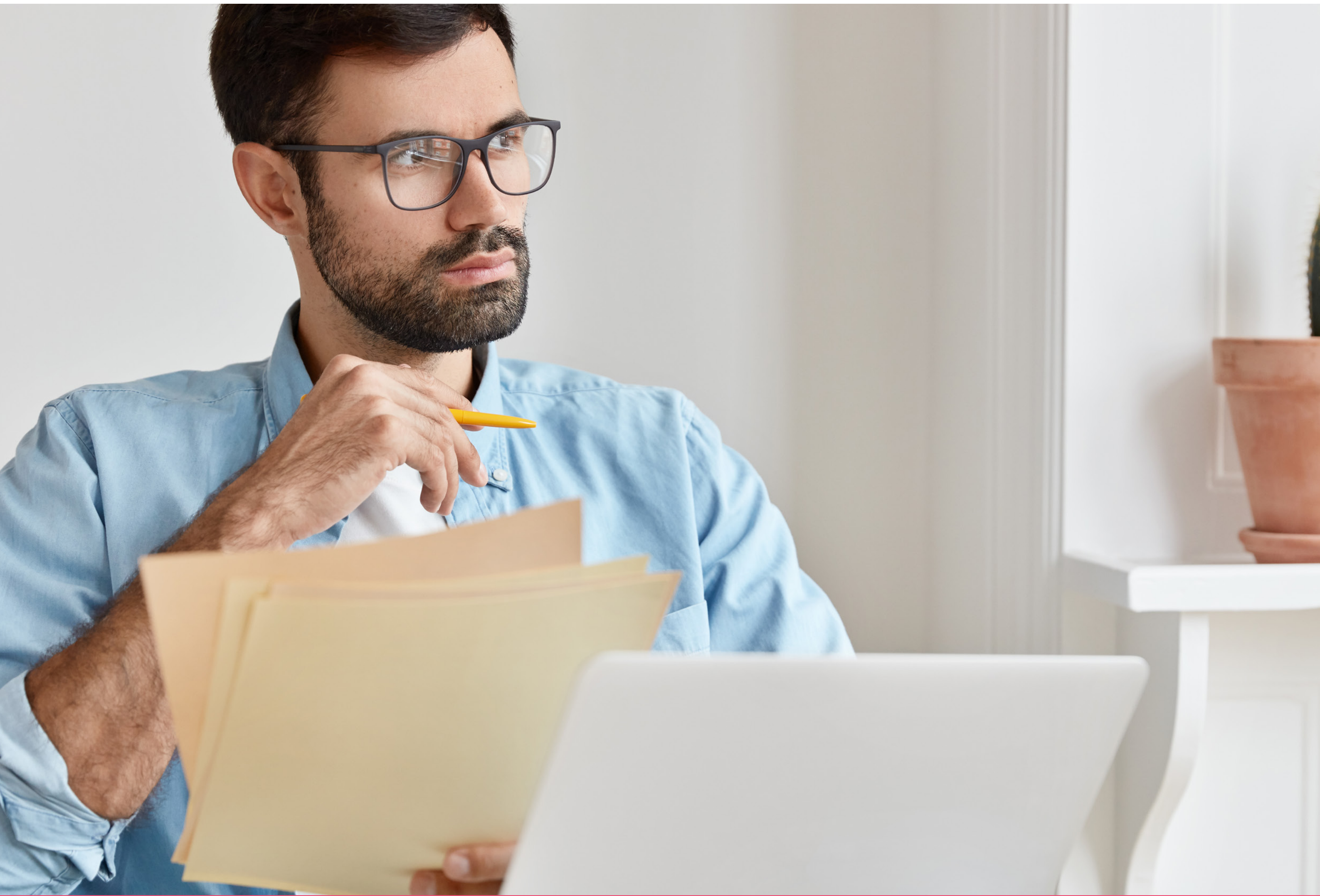
4. Things to Consider

Whichever model you opt for to fund your recruitment start-up, it can be useful to work through a high-level checklist to ensure you have the right partner and deal for your short and long-term goals.

Jumping to accept the first proposal you receive can be a mistake which will hang over your venture for years, becoming more and more painful as your business grows and flourishes.

As you assess your investment options, ask yourself:

- Will you have full operational control of your business?
- Can you raise future capital and sell the business on your terms, at your price?
- Will you pay any ‘service’ charges to investors in addition to their shareholding?
- Will investors sit on the board of your company?
- Do investors expect to be operationally active within your business?
- Have you spoken with other founders who have been funded by your chosen investor?
- Are you raising more capital than your business really needs to get started?
- Have you read and understood the full investment contracts?
- Have you calculated dividend payments to investors in years 1-5? 5-10?
- Will you still feel good about your deal when your business is worth $1m? $5m? $10m?



5. Case Study: RecruitHub

RecruitHub was recently introduced to two senior recruiters looking to launch and scale their own agency.

They wanted to quickly hire to build a business with international reach and maximise relationships they had with clients as well as add high-performing people to their team, and needed a six-figure sum to launch.

The founders had an offer from an investor that wanted a majority stake to invest, but they were nervous about giving away control of their business and parting with such a large portion of the long-term value they planned to create.

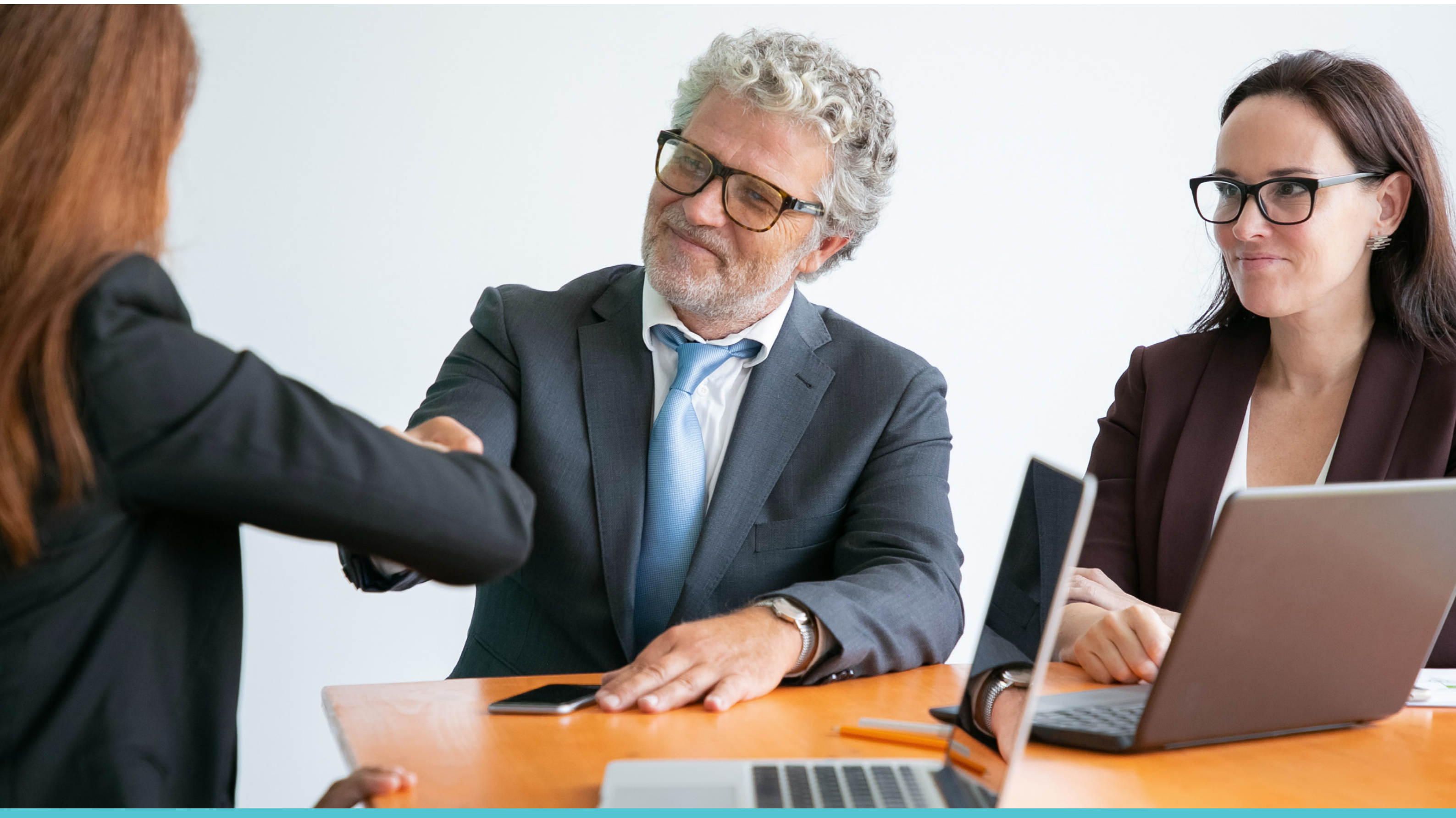
Both founders provided RecruitHub with information about their billing histories and their plans for their business. We worked with them to build a business model and create financial forecasts to assess how much launch capital they needed and indicate how much equity they might need to give investors to attract the investment.

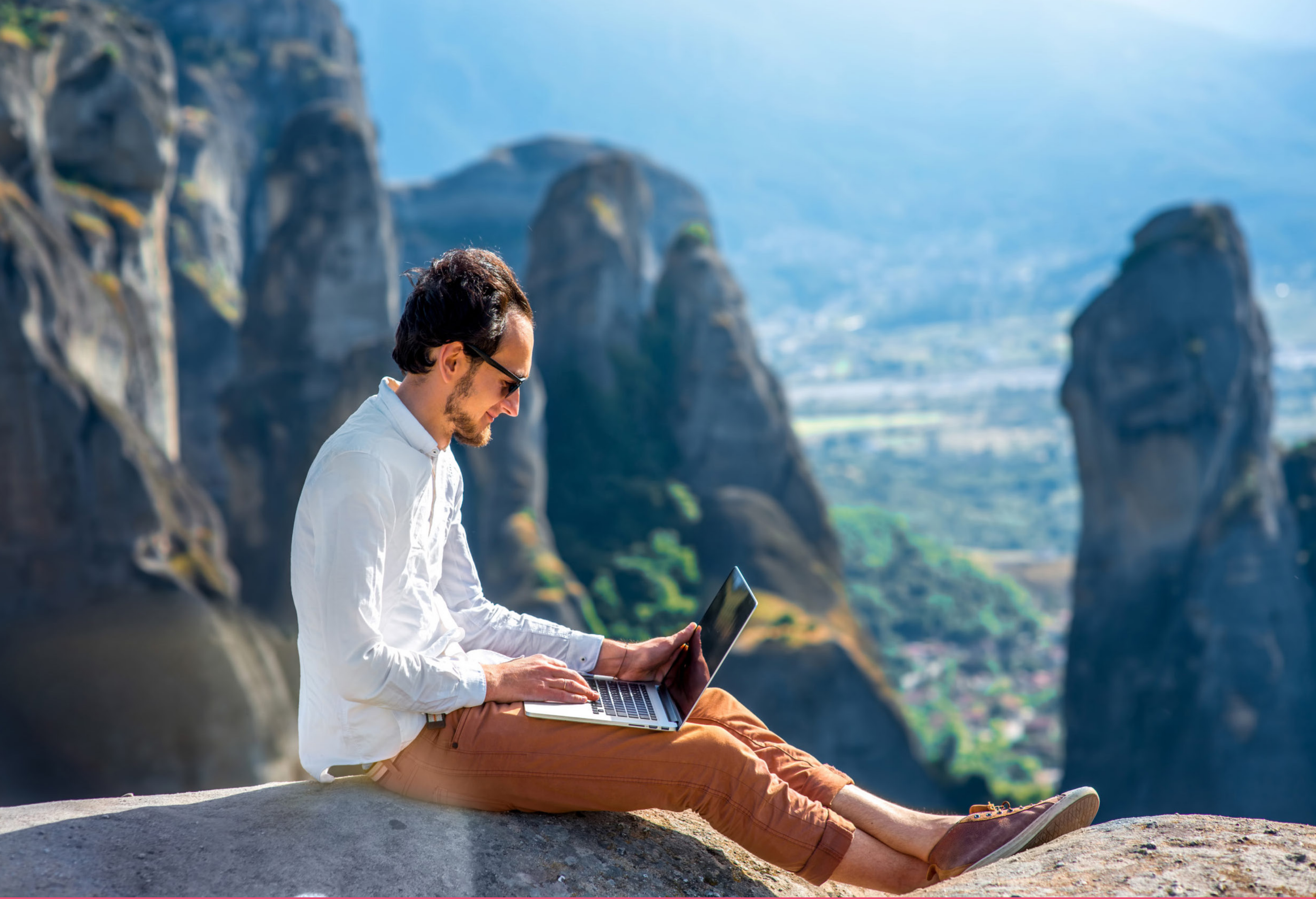
Our team then worked with the founders to review and understand their restrictive covenants and other legal obligations.

After review, RecruitHub introduced them to our angel network who chose to invest for an equity stake of less than 25%, and both sides agreed to investment terms giving the founders full operational control of their business.

RecruitHub supported the founders with preparation and completion of paperwork for the investment and submitting SEIS applications.

The founders meanwhile focused on launching their business – building their brand with our design team, signing up clients and lining up retainer contracts inside their first week!





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Contact us now to see how we can help

Learn more about RecruitHub's market-leading recruitment start-up solution.

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