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Raising finance for growth

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Raising Finance for Growth

- Many businesses, from their commencement and through their development and growth, may need finance.
- Additional funding requires a commitment in terms of capital repayment and interest or dividend payments. Embarking on this course of action must therefore be planned carefully.
- In addition the business must be capable of sustaining any additional commitment to growth or expansion, and consideration will need to be given to effects on manpower, materials and space.
- Whilst seeking external finance, a business must also consider whether it can improve its working capital from within or whether there is an additional requirement.
- Assuming external financing is necessary and what the requirement is for, what type of finance is best suited to the development of your business, and who should you approach for funding?
- Be open minded- be aware of your options and your financing solution may well require both debt and equity.

Where are you right now and where do you want to be?

Stage

- Pre-Trading
- Pre-Profit
- Profitable and growing
- Profitable and stable

Aspirations

- Initial funding to develop product
- Product launch/ brand development
- Generate sales growth organically
- Expansion into new markets
- Invest in facilities
- Acquisitions

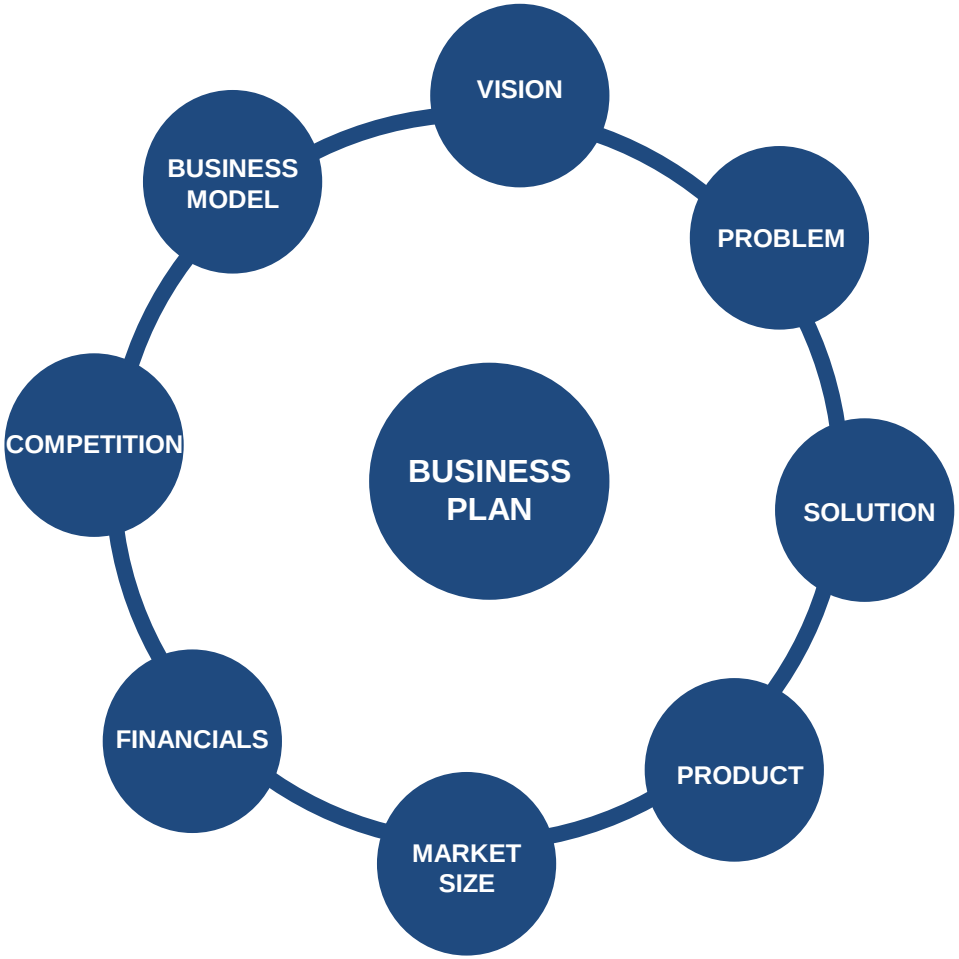
Business Plan

It highlights the vision and goals and needs to be informative, concise and attention grabbing.

Typical Information Requirements

- Details of key personnel and their roles
- Explanation and analysis of the company, its product and services
- Client base- Now and future, together with marketing plans
- 3 years historic financials
- 3-5 years integrated forecasts- Profit and Loss, Balance Sheet and Cash Flow
- What funding/investment is required
- The purpose of the funding
- How will any debt required be services i.e. both capital and interest?
- How can the equity stake grow in value?
- How can equity investors exit?

Foot Note- *Whether short term debt finance or long term growth capital, different funders and equity investors have their own specific requirements when they assess whether or not to become stakeholders*.



Funding Options (Debt)

- Simplistically, there are two different types of finance: debt and equity.

- Debt comes in many forms and each can be more or less appropriate to each type of business, the stage it is at and the future plan. Debt is a capital sum provided to your business which you will be required to pay back over an agreed term. You will also be required to make interest payments. Debt can be used for long term investment or working capital purpose. Your debt options may include:

  - Overdraft
  - Bank Loans
  - Asset Based Lending
  - Peer-to-peer funding
  - Mezzanine Finance

Funding Options (Equity)

- Equity relates to long term risk capital provided in return for a stake in the ownership of the company. Equity funding options available are:

  - Angel investors/ seed finance
  - Private equity and venture capital
  - Crowdfunding
  - IPO (initial public offering)

- The decision of which option is the most appropriate for your circumstances will be based factors such as:

  - The size of your business
  - Future growth plans
  - The size of investment needed
  - Dilution of shareholding and control

Categories of Debt

The most appropriate form of debt will depend on purpose, it will depend on the amount of capital being borrowed and the affordability of the repayment terms – both capital and interest.

Overdraft

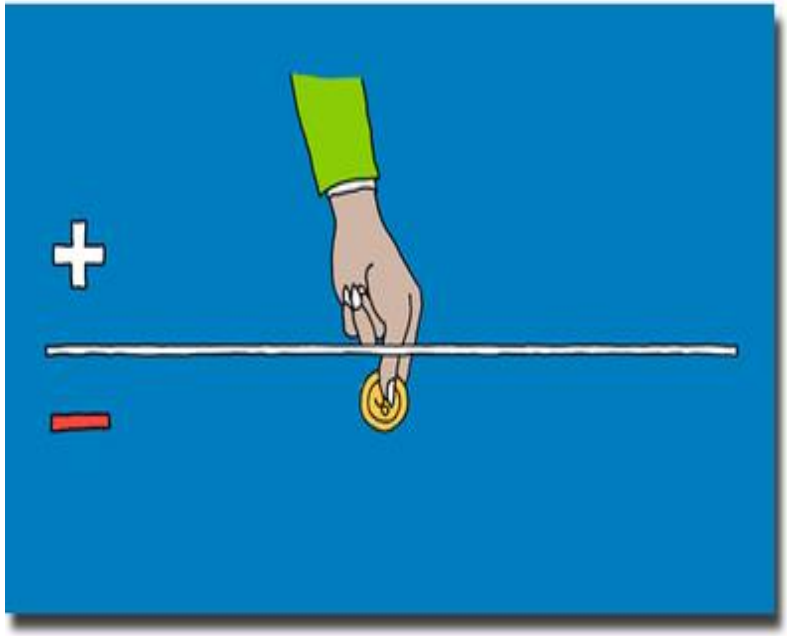
Overdrafts –used generally to help finance working capital and to meet the short term requirements

Benefits

- An overdraft is flexible – you borrow as and when required
- It's quick to arrange.
- Often cheaper than loans

Limitations

- Repayable on demand
- It is likely to be secured against business assets
- Interest is nearly always variable, making it difficult to accurately calculate borrowing costs.



Bank Loans

These are better suited to larger and longer term purposes and this can include asset investments, property purchases and acquisitions.

Bank loans may be unsecured, or secured against a debenture or sometimes specifically against property, equipment or other assets. As with all types of debt financing, you will need to pay interest on the debt and repay the principal.

Benefits

- Available to most companies
- No loss of control
- Interest is tax deductible

Limitations

- Can be strict covenant requirements
- There will need to be repayment of capital and interest
- Potential early settlement charges
- Security to be provided

Asset Based Lending

This is finance secured on your assets and includes leasing, HP, invoice finance, stock finance and variations using a mixture of balance sheet assets as collateral. It is provided by most banks and specialist asset finance companies.

Benefits

- Can be used to obtain a wide range of assets.
- Improved liquidity
- Can be obtained quickly
- Fewer covenants and repayments are often straightforward.
- Pricing reflects the risk and amount of leverage required.
- Tax relief on interest repayments

Limitations

- Chance of losing valuable assets
- Valuations of the collateral
- Not all assets qualify as collateral
- Rapid repayment schedule could be problematic

Peer to Peer Lending

Peer-to-peer lending is a form of direct lending of money to individuals or businesses. P2P lending is generally undertaken through online platforms that match lenders with the potential borrowers.

They are a valid alternative to Bank loans and thresholds are increasing and its is a growing and disruptive sector.

Benefits

- Practically a more accessible source of funding for start ups
- A reflective range of interest rates
- No loss of control

Limitations

- Still need to pass a credit check and other internal checks to secure the loan
- Will still require a track record and submit financial information.
- Borrowing may need to be supplemented at a later date

Mezzanine Finance

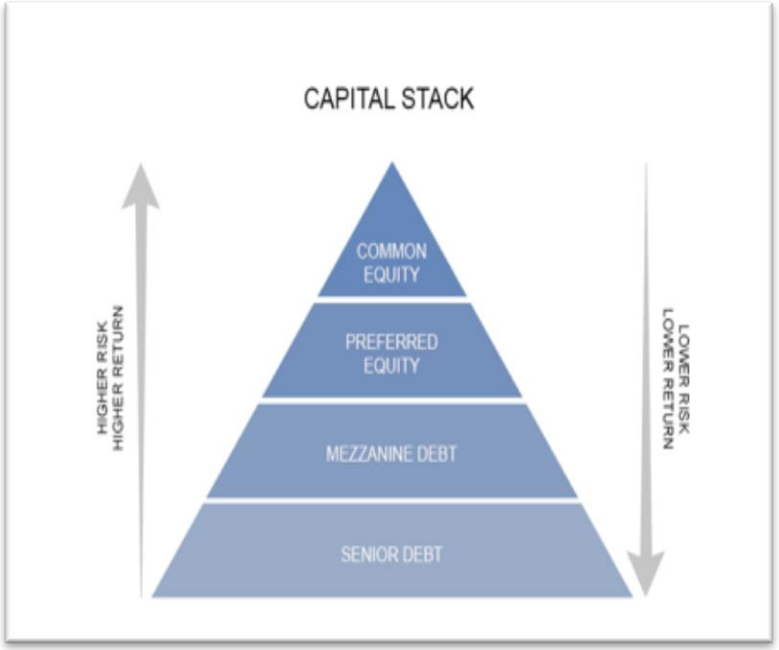
Mezzanine debt is the middle layer of capital that falls between secured senior debt and equity. This type of capital is usually not secured by assets, and is lent strictly based on a company's ability to repay the debt from free cash flow.

Benefits

- There is no specific charge on the company's assets and is ranked behind primary lenders
- There may be no equity requirement by the lender
- Having a mezzanine investor on board is perceived as a positive signal by the shareholders

Limitations

- Can be strict covenant requirements
- Higher rates of interest than traditional borrowing
- May be structured with warrants and options



Equity

It is the raising of capital through the sale of shares in a business. It is the general term given when equity is sold to 3rd party investors with no existing stake in the business.

After the early stage of business VC/PE investors tend to be an option to be considered at the growth stage of the business.

Positive consideration of business owners

- A long term funding commitment
- Aligned interest of business growth
- The right PE houses can bring valuable resource, knowledge, experience and contacts
- Can provide follow on funding
- No interest repayments and no capital repayments- return is through dividends and exit.

Not so Positive

- Raising equity can be time consuming and costly
- Takes time away from the business at an important stage
- Owners share will be diluted
- The rules of the game change- reporting lines may change
- Greater risk and hence require return higher than loans.

Angel Investors

An angel investor (also known as a private investor, seed investor or angel funder) is a high net worth individual who will provide financial backing for early stage businesses typically lower amounts and often high risk.

Benefits

- No collateral required
- Investment decisions are generally quickly made
- No capital repayment or interest burdens
- Access to your investor's sector knowledge and contacts

Limitations

- Often not suitable for larger investments
- Less structural support than investing companies
- Giving up a share of your business

Private Equity and Venture Capital

Venture Capitalists will invest in businesses often early stage with exceptionally high potential or a company with a USP or technology which sets it apart. The investment time frame is relatively short.

Private equity is a form of funding where investors provide medium to long-term investments. They offer growth capital for businesses with growth potential. They see it as their role to help businesses improve profitability through operational improvements, revenue growth, investment in marketing and product lines and expansion into new territories.

Benefits

- The right investor can bring contacts, commercial and strategic expertise
- Large amounts of funding available
- They have strong personal incentives to increase your company's value.
- Introduce corporate discipline and management structure
- Tend to be invested in a 3- 7 year timeframe after which they tend to exit- look to sell to trade, another PE House or IPO.

Limitations

- Dilution/Loss of your ownership stake
- Loss of management control
- Tends to be specific investment criteria

Crowdfunding

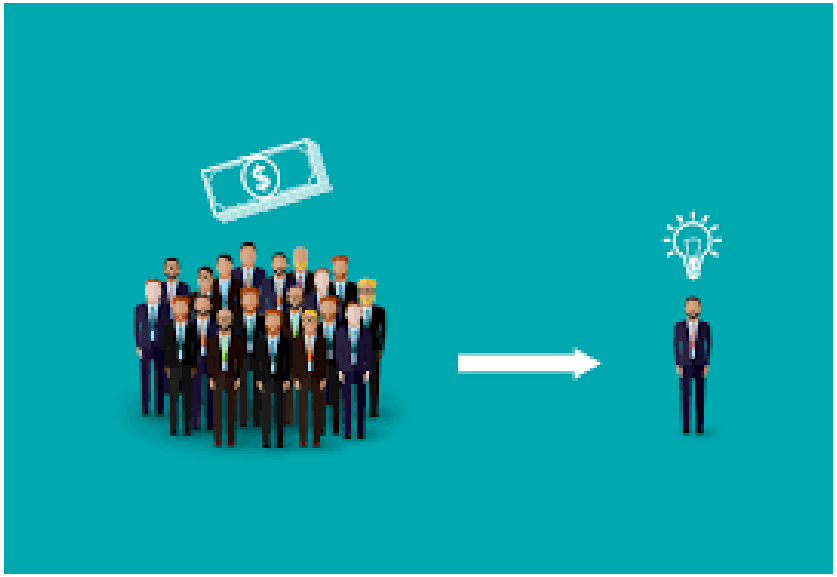
Crowdfunding is becoming increasingly common and is the use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together.

Benefits

- Online platform can be a valuable form of marketing
- Alternative finance option for pre revenue businesses struggling to get bank loans or traditional funding

Limitations

- Requires significant time and effort building up interest before the project launches
- May not reach funding target



What should you choose?

	Overdraft	Asset Based Lending	Bank loans	Peer to peer funding	Mezzanine Finance	Angel investors	Private equity & venture capital	Crowdfunding
Cost	Cheaper than loans	Lower cost than comparable options	Rates dependent on risk	Can be cheaper than bank loans	Higher interest rates than loans	No fixed costs	Tend to have target returns	No fixed costs
Size of Investment	Small amounts	Based on quality/ availability of assets	Based on security & business prospects	Small amounts from large no. of investors	Large amounts of funding available	Not suitable for large amounts	Large amounts of funding	Small amounts from large no. of investors
Collateral	Collateral may be required	Collateral required	Collateral may be required	No collateral required	Collateral may be required	No collateral required	No collateral required	No collateral required
Ownership	No dilution	No dilution	No dilution	No dilution	Little or no dilution	Leads to some dilution	May result in significant dilution	Leads to some dilution
Decision Making	No involvement	No involvement	No involvement	No involvement	May be involved in decisions	May be involved in decisions	Heavily involved in decisions	No involvement
Tax Deductible Expense	Interest is Tax Deductible	Interest is Tax Deductible	Interest is Tax Deductible	Interest is Tax Deductible	Interest is Tax Deductible	Dividend is not tax deductible	Dividend is not tax deductible	Dividend is not tax deductible
Suitability								
Pre - Trading						✓		
Pre – Profit	✓	✓			✓	✓	✓	
Profitable & Growing	✓	✓	✓	✓	✓	✓	✓	✓
Profitable & Stable	✓	✓	✓		✓			

What are funders looking for?

- **A Good Business Plan-** clearly defined revenue streams and evidence of sustainable growing market
- **Clear Marketing Strategy-** Defined targets and how to achieve them
- **Experienced and Competent Management Team-** Track record of success and commitment to growing the business
- **Clear Competitive Advantage-** Unique products, process, pricing or technology.
- **Strong financials-** Ability of the business to sustain growth, support on-going working capital and capital expenditure and provide the required returns and/or repayments to all investors**.**
- **Reliable Financial Information-** Detailed project costs, financial projections of profit and operating cash flows, likely payback profiles and possible exit strategy.

Key Takeaways

Summary of the key points that need to be considered and addressed when thinking about raising finance

- Consider the purpose and size of investment carefully
- Consider all of the available options
- Get the right balance between debt and equity
- Learn from other people's experiences
- Prepare the business to go through the due diligence and deal process
- Engage the right people it be corporate financiers, legal advisers or commercial advisers.

DTE Corporate Finance

Diligent & trusted advisers

Why DTE...?

- Senior led service
- Pragmatic and hands on approach
- Established North West presence
- Education sector specialism
- Experience and focus on the SME market
- Integrity, honesty and straight-talking

We advise on

Modelling	Acquisitions and disposals	MBO / MBI / VIMBO	Fundraising and refinancing
Due diligence	Equity investment	Restructure	Valuation

Our People

Matt Beckley
Partner

- Over 20 years experience, encompassing both lead advisory and transaction support assignments.
- Advises mid-market private companies and investors on private equity investment, acquisitions, disposals, restructuring, MBOs, MBIs and strategic reviews.

Victoria Edwards
Corporate Finance Assistant Director

- Qualified Chartered Accountant
- Over 8 years experience working in Corporate Finance boutiques in the North West.
- Over that period Victoria has had particular experience in all aspects of trade disposal and fundraising processes in sectors including retail, chemicals, insurance, and engineering.

Fatema Daud
Corporate Finance Executive

- Qualified Chartered Accountant
- Worked in Big 4 audit practices both in the Middle East and in the UK.
- Extensive knowledge of financial reporting standards and experience across different industries with a special focus in insurance services.

Andy Humphrey
Corporate Finance Director

- Andy has significant experience in the Lead Advisory and Debt Advisory, specialises in working with Universities and Colleges in a variety of different sectors in M&A, Fund Raising and Debt Advisory.
- Andy has previously worked in Grant Thornton and Lloyds TSB heading up their Acquisition Finance Team in the North.

Lewis Pearson
Corporate Finance Executive

- Qualified Chartered Accountant
- Joined the corporate finance team after completing his training in the audit practice.
- He has extensive experience of advising SMEs on multiple transactions.

Luke Seymour
Corporate Finance Executive

- Luke has previously worked in both Audit and Forensics Practices.
- He has worked on a number of mid-market transactions spanning across a range of different sectors including private equity investment.

THANK YOU!