No-Nonsense Guide
to Finance for High Growth Companies

Finding the right adviser • Business planning

Venture capital • Angel finance • AIM and OFEX

Bank debt • Invoice and asset-based finance

Sale and leaseback • Managing investor relations

Business Link

WELCOME

While obtaining the right finance is essential to any successful high growth strategy, the process of locating and securing it can be challenging for even the most experienced business.

This guide can help your quest for funds by giving you a better understanding of:

- Assessing your specific funding needs
- Where and how to get the right advice
- Various funding options including loans, venture capital, leasing, invoice discounting and Government support
- Pitching to and dealing with investors

This guide incorporates the experiences of businesses just like yours, along with advice from industry experts, so you get an inside practical view of how to be successful. And as it is from Business Link, the Government backed business support service, there is no product sell or bias – just objective guidance on what is available within the marketplace.

Clearly this guide can only ever be a starting point. We hope that as a result of using it you feel better positioned to access the support you need. Should you need to talk to someone then our Business Link advisers will be only too pleased to help. To find your local Business Link, phone 0845 600 9 006 or visit www.businesslink.gov.uk

Finally, if you are a new or early-stage small business looking to raise small amounts or start-up funds, you may be interested in our No-nonsense Guide to Small Business Funding. This can be ordered by either calling 0845 600 9 006 or by visiting www.businesslink.gov.uk

Contents

HOW TO USE THIS GUIDE

The guide is divided into four sections:

1. PREPARATION
Before you approach anybody for funding, you will need to work out where your business is, where you want it to go, and how much you need to take it there. This section introduces the main financing options, and give tips on how to draw up a successful business plan.

2. FUNDING OPTIONS AND PROCESS
This section looks in more detail at the various types of finance available and how to go about securing them. As well as funding options such as leasing and invoice discounting, it covers borrowing from banks, obtaining equity investment from business angels or venture capitalists, and what to consider if you are thinking of floating your business. We also look at how to make your pitch to investors, and what to negotiate in a deal.

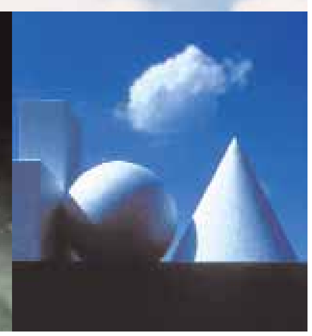
3. AFTER THE EVENT
Accepting investment introduces a new element to your business: the investor. They will have an interest in how the business develops, and may expect some influence and input. If managed well this can be a beneficial relationship for both parties – we examine how.

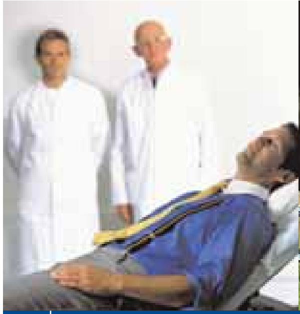
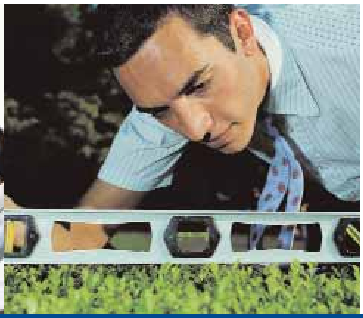
4. RESOURCES
Here we provide information on schemes the Government runs to help businesses innovate, be informed on best practice and encourage growth.

For more on all these issues, visit the Business Link website at:
www.businesslink.gov.uk/growth

1 PREPARATION



2 FUNDING OPTIONS AND PROCESS

3 AFTER THE EVENT

4 GOVERNMENT RESOURCES

Why do you want finance?

If organic growth is difficult, raising finance may be the best way to expand your business. Determine your needs and the best route for you

If you've reached the point where your business requires an injection of cash, it may not always be obvious whether your first port of call should be a high-street bank or a professional investment house that will take a stake in your company in return for providing funds. By analysing your business – both in terms of where you are and where you want to take it – the most appropriate means to finance growth should become clearer.

If you are seeking finance, the chances are your business has come to some sort of crossroads or pressure point. For a start-up technology company this could mean a requirement for enough cash to pay wages and office costs until the first product makes it onto the market. For a consumer goods producer on the verge of securing its first contract to supply a multiple retailer, cash might be needed to expand production and distribution to fulfil the demands of its prospective customer. On an operational level, you may require a cushion against the peaks and troughs of cashflow. Whatever the situation, it is important to focus on the funding options that not only align with your objectives but also your stage of development.

CASE STUDY Richard Palmer, founder of d3o lab, wanted to start manufacturing his patented shock-absorption material. He raised funds from business angels.

"It takes a long time to secure any finance and business angel finance is no different. If we had known at the start just how much time and effort it takes, I would have spent longer preparing an investment strategy.

"Also, when I was pitching for investment, I tried to make the business cash-positive in one stage. Had I appreciated the business would develop and grow in value so quickly, I would have outlined my longer-term investment needs more strategically."

IN BRIEF FINDING FINANCE

- Determine what you've achieved and where the company is now
- Ask yourself how appropriate your sector is for various types of finance
- Allow a time 'buffer' in case fundraising takes longer than expected
- Focus on the types of finance appropriate to your growth plan
- Seek specialist advice

Debt and equity

Broadly speaking, you can raise money for your business either by incurring debt or by selling equity. There are several fundraising solutions to consider within these two camps.

Forms of debt go beyond the familiar concepts of borrowing, overdrafts and leasing, and include very specific solutions such as invoice discounting. Whatever the debt arrangement, you are effectively purchasing money, usually by paying interest on credit extended to you and on the basis of being able to provide sufficient security.

Where next?
Pages 8-9 For advice on calculating your needs

For equity finance, investors will require a stake in your company based on the size of the sum on offer against the perceived value of the business. Rather than lending, the backer is buying into the company, although investors tend to structure deals with an element of debt too. This ensures some payback over the period of the investment, prior to eventually selling the stake.

Fear of losing control, the expense involved, the timescale and concerns about complex deals deter some businesses from exploring equity finance. But equity investors can also improve your business's long-term prospects by providing valuable skills and expertise.

Operational issues

Although it is impossible to generalise, businesses often choose debt finance to address an operational issue that may or may not be growth related. A problem caused by cashflow fluctuations, for instance, might be solved by extending an overdraft facility.

Alternatively, invoice discounting (where a lender will pay you whenever an invoice is raised, so you don't need to wait for the customer to pay) may keep you out of the red.

If the aim is to preserve working capital, it may make more sense to lease equipment than buy it, while a loan may be used for larger one-off outlays.

Funding growth

Debt-based solutions may be flexible, but there will be times to consider equity finance. Rapid expansion from a turnover of £500,000 per annum up to £10m, for example, may call for increasing production, opening an office in Europe or employing a bigger sales team.

You could, of course, fund this by borrowing against assets – but even if lenders are forthcoming, repayments will be a drain on the business. In circumstances such as this, equity investment can provide upfront cash without the burden or regular repayments.

True, this means reducing your stake in the company – but if all goes according to plan,

12 QUESTIONS TO ASK YOURSELF

1 What are my business's finances like? Lenders and investors are more likely to put up money if your finances are sound.
2 How much is my business spending and how much will the growth plan cost?
3 How much do I need to raise to fulfil my business objectives?
4 And how much is it feasible to raise from the various possible sources?
5 What factors will affect what kinds of finance I can seek? For instance, your company's growth potential may not be sufficient to attract a VC, or the sector you operate in may not match the interests of the investment houses on your list.
6 What is the business worth?
7 What will finance cost in fees or equity?
8 How quickly do I need it?
9 What contingency funds could I access if fundraising takes longer than expected or if I fail to raise finance?
10 When does the backer need to be paid back or when will I need to find an exit?
11 Will I be able to raise further funds?
12 Should I be looking for one lump sum, or staged payments over several years?

the real value of your holding will grow. Also important, private investors can actively help you grow by giving advice and recommending executive and non-executive directors.

You will be working closely with your equity investors, so get to know them first: it's important that the chemistry is right.

Equity finance can come from a number of sources. These include friends and family (personal contacts who have the money and inclination to back your plans with anything from a few hundred to a few thousand pounds), business angels (individuals who specialise in supporting young, growing companies) and venture capitalists. The latter will probably only be interested in investments of £1m plus, and will be looking for a flotation or trade sale within a few years to allow them to achieve a high return.

Whoever you are dealing with, seek sound advice. While your accountant will undoubtedly help you in your relationship with lenders, dealing with equity investors requires more specialist help. A legal adviser should check any deal, and when preparing to talk to venture capitalists, enlist the help of a corporate finance specialist. Mid-tier accountancy firms are particularly strong in this area. Advisers will also be able to help you establish whether you really need to raise finance or whether your problems can instead be addressed in other ways.

For instance, if cashflow is a problem, it may be possible to resolve the issue by raising invoices more quickly or by taking a more proactive approach in chasing unpaid debts. There are always alternatives. ■

Where to go next

For help with **choosing the right finance**, visit: **www.businesslink.gov.uk/financetype**

Find the right finance solution

Finance Option	Amount sought: £100,000-£500,000	£500,000-£1m	£1m-plus	Typical growth plans financed
Bank loans	✔	◗	◗	New premises; rolling out chains, marketing; working capital; low-end acquisitions
Invoice discounting	✔	✘	✘	Working capital and lower risk, less costly versions of other growth plans
Asset-based lending	✔	✔	✔	Working capital and lower risk, less costly versions of other growth plans
Leasing	✔	✔	✔	Working capital and lower risk, less costly versions of other growth plans
Angel finance	✔	✔	✔	Medium to high growth, medium to high-risk growth plans – acquisitions; product launches; new premises; marketing
Venture capital	✘	◗	✔	High growth, medium to high-risk growth plans – acquisitions; product launches; new premises; national or global expansion
OFEX	✘	✔	✔	High growth, medium to high-risk growth plans – acquisitions; product or service launches; new premises; national or global expansion
AIM	✘	✘	✔	High growth, medium to high-risk growth plans – acquisitions; product or service launches; new premises; national or global expansion

✔ Likely amount of finance to secure from this source
◗ Possible amount of finance to secure from this source
✘ Unlikely amount of finance to secure from this source

Time required	Typical charges, fees and interest rates	Pros	Cons	Page number
1-3 mths	Interest of 2.75-4 per cent above base rate, plus a lending fee of 1-1.5 per cent of the loan	Retain control, and a cheaper source of finance	You may be required to offer personal guarantees. Need to service loan repayments immediately	14-15
1-4 wks	Service charge of 0.1-1 per cent of turnover, plus interest of 1-4 per cent above the base rate	Receive up to 90 per cent of the value of invoices upfront	A minimum turnover may be required	16-17
4-6 wks	Interest of 1.75-2.5 per cent above base rate, plus a lending fee of 0.5-1.5 per cent of the loan	Debts can be secured against stock, machinery, premises, invoices and even brands	Minimum may be set too high for smaller businesses. Ownership of assets remains with lender	18-19
Days-1 mth	Deposit of 5-30 per cent. Finance fee of 1.25-10 per cent above base rate. Due diligence of 0.25-1 per cent of total advanced	Almost anything can be leased. Access to the most up-to-date equipment. There are tax benefits	You do not have ownership of your assets	20-21
3-6 mths, but could be up to 1 yr	Typically up to 10 per cent of funds raised, though less for larger investments. Legal/accountancy fees. Equity for private investors	More prepared to back early stage businesses. May offer contacts, advice and skills. Process often less formal and rigorous than for VCs	Angels are often hard to find. They will seek an exit, typically after three to five years. You have to relinquish equity	22-25
3-6 mths, but could be more	Corporate finance fees of 5 per cent*. 5 per cent equity options. Legal costs up to £30,000. Accountancy fees and 20 per cent or more of equity	You can raise larger amounts. Strong management and industry contacts	VCs expect rights over the business. They will seek an exit in three to five years. You have to relinquish equity	26-29
3-6 mths, but could be more	12.6 per cent* of funds raised on average, including advisers' fees. Often as much as £200,000	Profile and credibility. Offers more funds than debt/angels, but is still appropriate for small businesses. Less regulated than AIM	Expensive to raise. Lack of future liquidity in shares. Reporting to shareholders takes time. You have to give up equity. There is a limited pool of investors	30-31
3-6 mths, but could be more	10.5 per cent* of funds raised on average, including advisers' fees. Often as much as £300,000 to £400,000	Profile and credibility. Firms typically raise larger amounts than through debt, business angels or OFEX	Expensive to raise. Lack of future liquidity in shares. Reporting to shareholders takes time. You give up equity. Better suited to medium-sized businesses	30-31

* Typical amount – fees are negotiable

Calculating what you need

Before you seek finance, you need to know what you require, how realistic this is, how long it will take to secure and which source suits your needs

Financial backers expect you to have considered your requirements with care, so that the amount and timing of borrowings is rigorously assessed and there is a robust strategy to provide repayment.

How much should I ask for?

You need to cost each aspect of your growth strategy. For acquisitions try to identify the potential target and its likely price range. To launch a product or service you will need a marketing plan, which should include: who you will target, assumptions about how many sales or customers you hope to acquire, the proposed medium and cost of the campaign.

Opening or purchasing new premises will require an assessment of the cost to buy or rent in the suggested location, as well as any proposed modifications. Other areas you may need to assess include: salary costs for staff you plan to recruit; the cost of the equipment required; or how much suppliers would charge for new stock lines you propose to sell.

For all forms of finance, and particularly when raising larger sums of equity finance, Rob Donaldson of accountancy firm Baker Tilly advises: "It is sometimes worth adding a little extra to the sum you seek as, if the fees are fixed, they effectively become a smaller percentage of the total if more funds are raised. Also, implementing a business plan often costs more than you expect it to."

You should plan to include some breathing space for at least a year in the immediate financing as it's difficult to ask for more later and additional funding could take months to raise, potentially compromising operations.

Directors of companies listing on a public market are required to sign off a working capital statement that covers the funding requirements over the next 12 months for the

IN BRIEF YOUR FUNDING NEEDS

- Research what level of funding your plans require, the risks vs your expected returns and how the funds will be repaid or you will make a profitable exit
- Consider what affects your calculations, such as sector features, track record, business strategy, life stage of business, existing financial resources and assets backing

CASE STUDY When CEO of Firebox.com Michael Smith persuaded 16 business angels to invest £500,000 in a new venture he broke the budget into three parts.

"We budgeted carefully to get to profit. Pre-launch we needed £100,000 for stock, office space, IT and salaries, then enough to last a year (revenues should cover costs after six months), and a contingency buffer."

business. "Company directors tend to take an optimistic view of prospects," says accountant Stephen Bayfield of PKF. "Investors gain confidence if a contingency plan is evident, as things rarely go to plan. Remember that sales are usually more unpredictable than costs."

Ultimately, you may need to temper your ambition. You may have to recalculate if the financier offers you a smaller amount, so it is worth having alternative growth plans to ensure you don't lose time trying to raise finance while your existing resources dwindle.

What affects the amount I can seek?

Be realistic given the stage of development your business has reached. For most companies funding tends to rise incrementally from small amounts of secured debt and personal investment, to more sophisticated debt facilities (such as invoice finance and leasing) and business angel, venture capital and public market funding. Think about:

- How financial institutions view your sector
- Your management team's track record
- Existing and potential future competitors, and the economic climate
- Your existing debt facilities
- Your asset backing – any assets you can use as security with investors or lenders
- Vision – it's important to have a clearly defined goals and ambitions

What is the most cost-effective option?

The costs of raising finance are significant in terms of management time and arrangement fees/advisory fees. For more on advisers' fees, go to pages 6-7. Raising below £1m of venture capital funding may be uneconomical due to the percentage of funds raised being required to cover the costs. If you are likely to require further rounds in the medium term it is economical to seek more at the outset.

As most debt is secured, costs tend to be lower, although for cashflow loans a funder will require independent due diligence, which will be paid for by the borrower.

Angel investment costs tend to be minimal in cash out terms. However investor risk is generally compensated for by way of securing a higher equity stake. For development capital costs increase, although the Regional Venture Capital Funds (RVCF) try to ensure costs are streamlined as far as possible. RVCFs can supply funds of £500,000 over two funding rounds; for details, go to page 28-29.

For a listing on the Alternative Investment Market (AIM), most companies look to raise £3m or more. It is more common to raise smaller sums, typically £750,000 to £1m via the PLUS market. Total costs for a listing may exceed £500,000, so consider whether a quote is really required for strategic reasons.

CASE STUDY Actinic founder Chris Barling, raised £165,000 in angel finance in 1998 to launch its e-commerce software product.

"We initially wanted £1m, but having seen 70 angels we revised it to £100,000 for 11 per cent equity. You can only be as ambitious as the funding you can raise. We cut out plans for a US office, scaled back marketing and product development and aimed to be cash positive as opposed to profitable. It took nine months to raise, lasted around a year, and saw us through to when we went for venture capital."

Where to go next

For The Institute of Chartered Accountants in England & Wales, visit: www.icaew.co.uk

Attracting equity investment

To raise equity your business and investment proposal attractive must be investors – which means a sound business plan and the team to deliver it

To give some idea of what you face, Geoff Sankey, a Regional Venture Capital Fund (RVCF) investment manager says that of more than 1,600 proposals received, only 40 have been invested in. The most common reason for rejection is the plan is at concept stage only. "There's a misconception that investors simply back ideas," he says. For more on RVCFs, go to pages 26-29.

These figures suggest that many businesses seek equity investment before they are ready. To have a decent chance of success, you need a strong proposition, able management and rigorous preparation.

CASE STUDY Toby Ash, co-founder of furniture chain New Heights, initially raised £350,000 from six investors made up of personal contacts, and now has 11 UK stores.

"Because we wanted to finance a chain, we needed a visible pipeline of stores. We didn't have money to pay consultants, so gathered information about the products and markets ourselves. We found out the cost of opening and fitting stores. You have to give a figure and be able to justify it."

Your proposition and investor selection

Your proposition must show a carefully evaluated business idea detailing the risks and rewards. It should also include where the business sits in its chosen market and why it will succeed against existing and potential competition. Most importantly, it should show how potential investors will benefit financially and the timing of their exit if applicable.

A key to success is selecting the right investor. "If businesses treat potential backers as if they are potential customers they will probably get a far better response," advises Sankey. Assess the following:

- The backers' investment range
- The stage of business they typically finance
- Geographical reach
- Look at the investor's deal portfolio and sector preferences.

If seeking angel finance, go to networking events to give you an idea of who you're up against; for more on angels, see pages 22-25.

IN BRIEF SECURING EQUITY INVESTMENT

- Match your proposition to investors' requirements
- Investors consider track record, age, the team's quality, contacts, financial commitment and management skills
- Work out what returns you can offer
- Decide how much equity and control of your business you would be prepared to relinquish

Your management team

It's important that an investor believes in and can work with your management team. Investors often look for:

Personal qualities: Emphasise entrepreneurial pedigree by highlighting past successes.

Contacts: You should have good contacts in your chosen

CASE STUDY Sam Tate, co-founder of fire safety manufacturer FireAngel raised £3m through grants, business angels, OFEX and loans for parent company Sprue Aegis Plc.

"Backing up our claims was vital. We got Mintel reports on the landscape, carried out research with consumers and fire brigades, and cited Government research. We also got a successful entrepreneur to constructively criticise our business plan."

sector (or a related one) as you will need to have talked to the relevant people, including suppliers and customers.

Commitment: You must believe in your business enough to invest a significant amount of your own money (around one times total salary typically) and be prepared to devote 100 per cent of your efforts to it.

Team: Directors should have previous experience in their role and at a similar level.

Track record: A strong track record helps, although if you've been through tough times this is not necessarily a bad thing as you may be able to illustrate the lessons you learned.

Age: Investors like to back sector experience and preferably those who have already run a business. If you and your team are in your 20s or over 50, raising finance for the first time may be harder. Hiring an experienced non-executive director is a possible solution.

The returns you can offer

For equity investors, the overriding concern is the potential return and when it will happen. Investors typically seek opportunities that provide an early exit, through sale or flotation (for more on exit strategies, see the box on page 28) and often ask themselves:

- Is the proposition feasible?
- Can the management deliver the plan?
- Are the potential rewards enough given the associated risks?
- How will I get my money out?
- If the business is to be sold who will buy it or how will the market react to flotation?
- What are best and worst-case returns?

Raising equity investment means being prepared to give up a stake in your business. You may feel nervous about relinquishing control; for advice on agreeing terms, go to pages 34-36. However, remember that by attracting investment you are growing your business and your smaller stake will potentially be worth significantly more.

Be prepared for intense scrutiny and questioning of your judgement and decisions. But this can be positive as being accountable to investors may help to focus your attention and drive the business forward. For more on investor relations, go to pages 37-38.

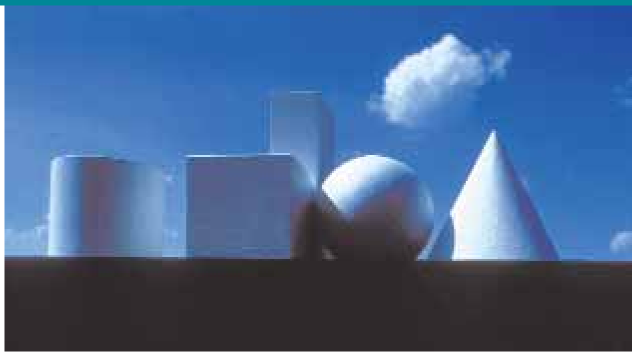
If you get turned down, remember it is a largely subjective process, influenced by the preconceptions of institutions and individuals. Treat rejection as a chance to improve your offering, ask for constructive feedback and try to fill gaps in the proposal. You have to show you can get on with backers and are dedicated.

Where to go next

For more on equity finance, visit: www.businesslink.gov.uk/equity

Visit the British Venture Capital Association at: www.bvca.co.uk

A business plan to raise finance



Business plans to raise finance are essential marketing tools. Read how to structure your plan and what you should include to convince investors

To secure finance, you will need to have a business plan that is tailored to your finance provider. A potential backer wants to see why you need finance, how you plan to use it, how they will get their money back or realise a return on their investment and the evidence which backs up any claims.

If you have an inexperienced management team that hasn't dealt with raising finance before, you should get in an adviser who can help you build the right business plan.

Structure of your plan

Executive summary: Your overall vision; a mission statement; plans; the state of the business; your product or service; your value proposition, growth strategy; unique selling points (USPs); sales; forecasts; what funds are needed and when.
History and background: The business; its origins; historical performance; sales data.

IN BRIEF BUSINESS PLANS

- Include background information on the business, market analysis, future opportunities, existing operations, brief management biographies, SWOT analysis, forecasts and existing finances
- Try to keep it under 40 pages in total
- Tailor it to the type of finance sought – 10 pages may be enough to secure debt
- Keep the look and feel straightforward

The market: Size; growth rate; major players; your position; technical advances; forecasts; relevant government regulations.
Opportunities: Vision and objectives; customers and their needs; target market; product or service positioning and value offering; USPs (such as plans to cut prices); patents or other legal protection; pricing; distribution channels; marketing plans.
Operations: Financial; organisational and human resources; requirements not yet met.
Management team: Outline background, responsibilities and skills of your key people and identify gaps that need to be filled.
SWOT analysis: Strengths; weaknesses; opportunities; threats.
Financial forecasts: Sales; gross margin; assumptions underpinning figures (including financial performance to date); profit and loss account; balance sheet and cashflow three-year forecasts; payback; breakeven.
Financing: Loans and debt arrangements; a breakdown of how finance will be used.
Exit routes: Possible exit strategies; for more on this, see the box on page 28.

This covers most forms of fundraising, although securing debt requires less detail, with added emphasis on assets, security, credit worthiness and aged-debtor analysis.

To read and download a sample plan, visit www.businesslink.gov.uk/businessplan

How much to include

Each section should be between two to four manufacturing business might talk more about its products' intricacies, for example.

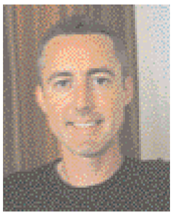
Avoid overemphasising one section, and only use headline figures in the executive summary. "Knowing what to leave out is as important as knowing what to include," says Jane Khedair, managing director of Business Plan Services. "An effective business plan is more than just a set of spreadsheets, but the narrative shouldn't be a novel. The business plan needs to have sufficient detail to present the relevant facts and whet readers' appetites."

Empathise with your audience

- Backers want to be confident that the interest and capital repayments can be met. Talk about how risk can be controlled, loss can be limited, and security. Adjust the tone depending on the audience.
- Invoice and asset-based financiers are less concerned with security than the quality of your debtor book, credit management capabilities, bad debt record, and the extent to which the business suffers credit notes. They may want to have an idea of the sell-on value of your assets. For more on asset-based lending, go to pages 19-20.
- For equity investors, focus on market opportunities and exit options, such as trade buyers. Avoid placing too much reliance on the potential and chances of a flotation as the likelihood of this happening is minimal compared to a trade sale and investors will regard your ambitions as unrealistic.

Focus on the present

While projections are vital to help backers see where you may be going, don't forget to tell them about existing sales, customers and the make-up of your management team. "People buy people not business plans" says Khedair. "Business ideas remain conjecture without the right people to implement them."



CASE STUDY Ian Burke Hamilton, MD of retail catering outlet Soup & Salad used a business plan prepared with professional assistance under the Access to Finance programme to secure a £55,000 loan from the bank under the Small Firms Loan Guarantee Scheme. "We found the service to be extremely useful for developing our small businesses," he says. Soup & Salad have since opened an additional retail outlet and set up a larger production facility to support the ongoing growth of the business.

Keep a straightforward look and tone

Lengthy plans are off-putting, says Khedair: "An executive summary should be just that – a summarised version of the main areas of the business plan which can only be written when all the other sections are in place. Keep it to two sides and leave it to the rest of the document to provide the fine detail."

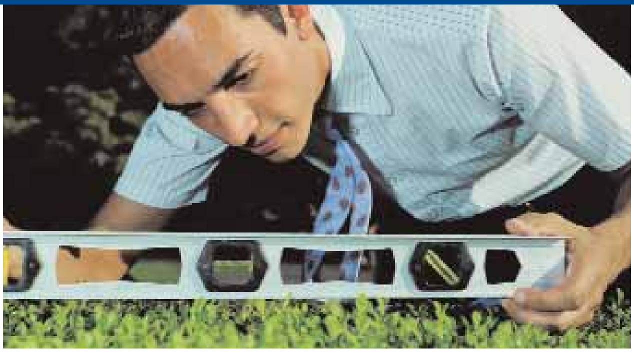
Presentation is everything. Keep the plan's language and appearance straightforward and accessible. Use photos and graphics if relevant, but don't overcrowd it. Supply the plan as a professionally presented document.

Get advice – but don't allow an adviser to write the plan without your interaction and input. It should have some of your character in it because investors are backing you personally as much as the idea.

Where to go next

For more on business plans, visit www.businesslink.gov.uk/planforgrowth

For more on business plans tailored to equity investors, visit www.bvca.co.uk



Growth through bank loans

A bank loan costs less to arrange than equity finance, although the repayments can be constricting. How can you raise it, and is it for you?

Secured bank loans can be taken out from one to 25 years at a fixed or variable rate of interest. They usually have a lower interest rate than overdrafts (which are often used as a short-term cash 'buffer') and are repaid over a similar period to commercial mortgages (although a loan can also be used for purchasing premises). But do bear in mind that nearly all term loans are still repayable on demand.

What can I use it for? How much can I raise?
A bank loan is unlikely to fund high-cost growth strategies such as acquisitions, but is good for buying fixed price assets and more moderate growth. The amount raised is based on your ability to repay and unlikely to exceed £500,000.

What kind of company is it for?
Unlike equity finance, loans are ideal for owner-managed businesses where the owner wants to retain control; backers do not directly influence decisions and the owner gets a larger payout if the company is sold. For more on different types of finance, go to pages 2-5.

CASE STUDY Martin Jones, founder of £42m turnover travel company Freedom Direct, secured a £150,000 two-year loan from his bank to fund needed capital expansion

"We secured £100,000 to start the business in 1997, so went back to our bank when we needed to pay for bigger offices. Keeping cash was important. I didn't want interference from investors, plus we didn't need enough for equity finance. Leasing was an option, but I prefer to own assets. Taking smaller debt early on means when I look for £1m to buy new premises next year, it should be more straightforward."

Loans have repayments from the outset so new businesses looking to launch products or services without sufficient cashflow to service the loan may not be considered. "Banks will be keener to lend where repayment can be evenly spread," says Stephen Bayfield of accountants PKF. However, your bank may offer a capital interest holiday (or repayment holidays) at the outset or allow you to make lump sum repayments. Your bank will want to know the following:

IN BRIEF BANK DEBT

- Good for buying assets and medium-paced expansion
- Retain control and avoid interference from a backer
- Raising between £5,000 and £500,000-plus is possible
- Assets and track record of the management are key
- You may have to make personal guarantees, such as putting your house up as security

BANK DEBT

PROS
- It is cheaper and easier to obtain than equity finance
- You do not have to give up any control of your business to a backer

CONS
- Businesses with little trading history may find larger loans hard to obtain
- Defaulting on repayments or breaching conditions may mean paying back in full

- The track record and financial position of your business and the management team
- The loan's purpose and your ability to repay
- The value of your personal guarantees

Banks also help to administer the Government-backed Small Firms Loan Guarantee. The SFLG provides security for companies that have already been turned down for a bank loan and can guarantee loans of up to £250,000. For details, visit www.businesslink.gov.uk/sflg

What are the costs?

It costs less to raise than equity finance but is a larger drain on cashflow. You need to check the annual percentage rate (APR) of interest.
- Interest charged on loans is usually 2.75-4 per cent over base rate, although the rate may be higher for new businesses. Interest is charged on the amount of the facility you use at one time, and levied quarterly or monthly
- A lending fee with arrangement costs, of 1-1.5 per cent of the loan, can also be charged
- You and any major shareholders may need to give a personal guarantee. Offering your home as security is not unusual, however you are putting your home at risk if you fail to make the repayments. (Often, security should reduce the interest charged.) Other options include a mortgage of business property or directors putting more money in themselves
- If you decide to pay the loan back early, a prepayment fee may be charged. Charges are based on how risky the deal is and your standing. It is worth shopping around. Get a written quotation first, and read the small print, looking for hidden charges.

Does a loan take long to secure?

It should take between one and three months to finalise. Either way, you should get an answer quickly, maybe within weeks. Some accountants advise getting quotes from a few banks to try and force a quicker decision.

What is the loan dependent on?

Banks have a strict underwriting process and set these provisos before a loan is agreed:
- You will have to sign legally binding covenants. If you breach conditions, the bank will be entitled to immediate repayment in full
- Your profits should demonstrate an ability to service the debt
- Monthly management accounts and audited annual accounts are required before and possibly throughout
- Lenders may want to see how you manage debt, with analysis of how much the business is owed alongside when the invoice was issued (this is called aged-debtor analysis).

Where to go next

For more details on bank debt visit: www.businesslink.gov.uk/bankdebt

To use The British Banking Association's Business Account Finder to compare different products, visit: www.bba.org.uk

Borrowing against your invoices

By raising funds against the value of your invoices you can really improve your cashflow, but are debt factoring or invoice discounting right for you?

Invoice finance comes in two key forms – debt factoring and invoice discounting. For both, cash is immediately advanced to you when you raise an invoice. You can draw an agreed percentage of each invoice, with the balance, minus fees, paid on settlement.

The difference between the two is that debt factoring provides an additional service of sales ledger and collection management.

Invoice finance does not necessarily work for all types of business though. It is particularly suitable for partnerships and limited companies selling goods or services on credit to other businesses.

How to use invoice discounting

Invoice discounting is best used to improve cashflow and as a cost effective alternative to overdrafts or bank loans. Invoice discounting firms don't need extra security to advance you money. However, they'll want to see an efficient credit control system and that your business is profitable.

Invoice finance lenders will consider most sectors. Some are less suitable, such as businesses allowing the return of goods or those that take cash payments.

IN BRIEF INVOICE FINANCE

- Immediate advances of up to 90 per cent of the invoice
- Retail and cash businesses are less appropriate than manufacturers, distributors and service providers
- Can help to even out cashflow
- The charge is a one-off percentage of turnover, plus interest on amounts borrowed

CASE STUDY Sarah Wagstaff is one of the founders of Apeeling Veg, a company that sculpts fruit and vegetables for UK distribution, and has been working with invoice finance for 10 years.

"The nature of our business means we have to make immediate cash payments to our suppliers, but can then wait 30-60 days to be paid by our customers.

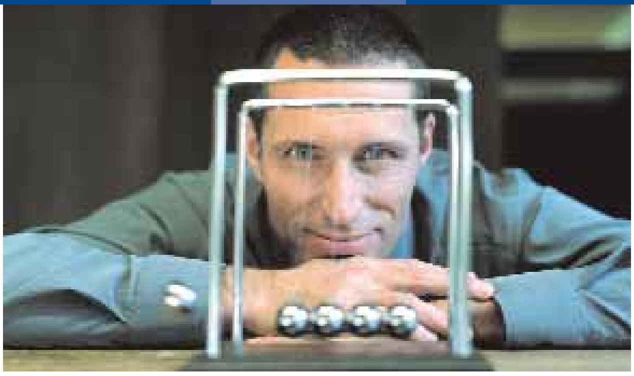
"Our discounter releases up to 85 per cent of the value of our unpaid invoices immediately, plus we also benefit from its bad debt protection scheme, which provides me with added security. They bear the brunt of an insolvency, so I get paid even if one of my customers fails."

How much can I raise?

Invoice discounters advance 80-90 per cent of your invoice value, depending on turnover, sector, customer numbers and existing credit controls. If your customers are credit-worthy, with sales not likely to become credit notes, you'll get a higher percentage.

What are the costs?

- The one-off service charge ranges from 0.1-1 per cent of turnover. The cost depends on how much work is involved for the suppliers, who may insist on a minimum level of turnover for a minimum fee.
- The second element of the cost is interest, which is



INVOICE FINANCE

PROS
- The amount advanced grows as your company expands
- It can improve cashflow and give you flexible access to additional funds
- Can help introduce credit control discipline into your business

CONS
- It only works for those businesses that sell products or services on credit to other businesses
- It's not the cheapest form of finance
- You can get tied into long contracts

charged on what you are borrowing. This can range from 1-4 per cent above base rate
- Another optional cost to consider is bad debt insurance. If your clients don't pay by the end of the invoice term, the lender will reclaim the money from you. By opting for a 'without recourse' service, you will be covered for up to 100 per cent of the invoice value

How quickly can I get a deal?
Lenders can usually give you an answer fairly quickly – somewhere between a week or a month, depending on the size and complexity of your business. They will want to:
- Examine your business and its accounts
- Carry out some due diligence, including scrutinising your sales ledger history and your credit control procedures
- Perhaps suggest changes to your processes before the facility is cleared

What do lenders want?
They want to see profitable businesses, but some will consider those who are not yet profitable or have been insolvent, if they have a robust turnaround plan. They have similar financial concerns as banks, says Kate Sharp of the FDA: "They will still require a good business plan, sound management and financial credibility. When you meet with potential suppliers, have your books ready, and have people available who can express where you want to take the business." For advice on business plans, go to pages 12-13.

Suppliers will monitor your sales ledger throughout the relationship. However, this can help identify credit risks and tighten up your own processes. Sharp adds that invoice discounting encourages excellent discipline: "Finance companies do extensive credit checks on your business and can pass this information on to you."

The downside of invoice discounting
It isn't the cheapest way of accessing funds, so balance your need for a smooth cashflow against forfeiting some of your invoice value.

Also, if things go wrong you may find that you're tied into a deal for at least 12 months. Before you sign up, ask what happens if you want to get out of the contract. Will you still be charged for the whole period?

Remember, invoice discounting is a competitive market so negotiate on terms and conditions such as notice periods. ■

Where to go next

For more advice on invoice discounting, visit: www.businesslink.gov.uk/discounting

For the Factors and Discounters Association, visit: www.thefda.org.uk

Making use of your assets

A less well-known source of debt finance is asset-based lending, where financiers can lend your business money using your assets as collateral

Asset-based (aka asset-backed) lending is a secured business loan where the borrower pledges their assets as collateral. Financiers lend on assets with high sell-on values: stock, machinery, premises, invoices and even brands or trademarks. It is distinct from invoice discounting, as invoices make up only part of the arrangement. For more on invoice discounting, go to pages 16-17.

Typically you will have access to a revolving credit facility (where you have an upper limit but the total borrowed changes frequently), as with an overdraft. The size of the facility is subject to the value of collateral at the time, and is constantly assessed, so the borrowing ability of a seasonal business can fluctuate.

Financiers usually retain legal ownership of the assets concerned for the contract's duration. Unlike bank lending, where future cash projections are a major consideration in the lending decision, asset financiers base decisions on the value of specific assets.

Asset-based lending (ABL) is a specialist area that is becoming increasingly popular in the UK. Over the last 10 years the amount raised by British businesses using it has soared, with overall figures for the ABL industry and invoice finance industry growing by 420% since 1995 and now lending over £11bn [source: Factors and Discounters Association]. A handful of specialists offer the service, as do some high-street banks.

Who is it for and how much can be raised?

It works well for asset-rich businesses undergoing a step change. A business looking for extra working capital to fund growth or seeking to part-finance a larger deal, such as a management buyout, typically uses it. Lenders prefer to deal with manufacturers, distributors and retailers.

The amount that can be raised depends on the perceived value of the assets and the likely rate of depreciation. But you can raise similar percentage levels of the value of your assets that an invoice discounter would lend against invoices. The difference is that because asset-based lenders look at the total value of all your assets, they can potentially lend you a lot more.

IN BRIEF ASSET-BASED LENDING

- Debt can be secured against assets including stock, machinery, premises, invoices and even brands
- Manufacturers, distributors and retailers are the most likely users, though it's not a common source of UK finance and few finance houses specialise in it
- Ownership of assets is gained or retained by the lender for the duration of a contract
- Lenders may advance more than invoice discounters because they look at all the assets of the company
- Some lenders have a minimum deal size of £5m

Some assets are worth more than others:

- Invoices as part of an asset-based deal could result in an 80-85 per cent advance
- Plant, machinery and property will also command high advances, around 80 per cent
- Stock and raw materials tend to result in a lower advance of 30-70 per cent

Values are usually based on what assets would be worth in a 'forced' or 'orderly' sale.

What are the costs?

Similar to an overdraft from a high-street bank. The annual cost of borrowing on a revolving credit facility is around 1.75-2.5 per cent plus an annual and/or closing fee of around 0.5-1.5 per cent of the total borrowed.

Should you decide to seek a term loan against fixed assets, you would be charged at similar rates to your credit facility. To support loans, however, the financier would have appraisals or valuations undertaken on your fixed assets. The cost of employing a valuer, which varies depending on the assets and size of facility, will be passed on to you.

You will also be charged monitoring costs relating to the constant ongoing review of your collateral arranged by your backer, and due diligence costs (see below).

How quickly can I raise the money?

Not as quickly as pure invoice finance. The sums involved are larger and the valuation of certain assets – brands, for example – is more complicated. The lender might have to call in the services of a specialist valuer.

You have to be prepared to undergo a detailed evaluation of your business (due diligence). The lender will look at all your accounting systems. They'll use an external valuer to value property, plant and machinery, and will review your cashflow and budget projections. You'll have to prove your cashflow is smooth enough to weather any seasonal fluctuations or unplanned drops in

CASE STUDY Jim Webster is finance manager of Police Aviation Services which provides police helicopters with pilots, equipment and maintenance. It has a £2.5m revolving facility.

"The advantage of asset-based lending is that it allows us to borrow against our helicopters and invoices, while only dealing with one financier; invoice discounters can't do that. Our lender used specialists to value our assets. The money was used as working capital when the company changed ownership. The revolving facility suits us – we don't need the amount that we could borrow on a term loan. And senior managers do not have to handle administration, which is not too onerous."

business. The whole process should take four to six weeks. After signing, some finance houses may allow a cooling-off period.

What do lenders want?

Lenders look for solid businesses more than stellar returns. "We seek companies with big assets and prospects for improvement," says Dennis Levine, chief executive of asset-based lending specialist Burdale Financial. "We tend to finance buyouts or refinance businesses where traditional sources are less flexible." They expect management, collateral and sales reports daily, weekly or monthly, depending on the assets being funded.

Where to go next

For a list of **asset-based lenders** from the **Finance and Discounters Association**, visit: **www.thefda.org.uk**

Should you buy or lease assets?

Buying outright might not be the best use of your capital. Look at leasing and hire as an option for acquiring assets

When your business needs to acquire assets, buying them outright might sound like the simplest option; cash purchases can work out cheaper in the long run and the goods are classed as business assets and so can be used as security. However, this might not be the best use of your working capital.

If you don't need to own the item immediately, consider leasing. Leasing allows businesses to use valuable assets – such as machinery, cars or furniture – without buying them outright. These items are instead bought and owned by a finance house and leased to you for a set period.

Leasing is the most popular form of finance for those businesses buying cars and vans; in 2005, £18.6 billion was provided to register 50 per cent of all new car registrations in the UK. Leasing accounted for 30 per cent of fixed capital investment in the UK in 2005 [source: Finance and Leasing Association].

There are a number of leasing options. A popular long-term option is direct leasing where you pay a deposit followed by regular payments that ultimately cover the full value of the asset and the interest accrued. Another option is operating leasing, which allows you to use the assets for a shorter period; the finance house can either sell or lease them again at the end of the contract.

If you don't want the worry of covering maintenance costs, consider contract hire. This is a form of leasing often used with vehicles in which your monthly payments can include maintenance and fuel.

CASE STUDY Business Communications, which supplies telephone systems, leases four luxury cars. Co-founder Stewart Arthurs explains how the contract hire agreement with Fleetline helped free up around £140,000 to grow the business.

"In the past we bought vehicles, and the deposits and financing tied up capital. Leasing resolved that. Our business is equipment-hire, and after an initial outlay it takes around 15 months to start earning money. By maintaining liquidity we've been able to move to larger premises, buy new computers and invest in more equipment."

IN BRIEF LEASING

- You get immediate access to the assets but pay back on a monthly basis, thereby easing your company's cashflow
- Leasing companies effectively lend you the total cost of items leased
- Almost anything can be leased – cars; property; IT and telecommunications equipment; machinery; printers and photocopiers; or even furniture
- There are various tax benefits – for example, you can deduct lease costs from your taxable income
- It can take as little as a day to organise

The advantages of leasing

- Cash that would have been spent on assets can be released to finance growth

- There are tax benefits. For example, you can claim back VAT on lease payments and you can also deduct the lease costs from your taxable income. For more details, visit www.businesslink.gov.uk/taxdeductions
- You don't own a depreciating asset and can return it, offering flexibility
- You can lease almost anything from company cars through to computers, phones, photocopiers, machinery and furniture
- You can access the latest equipment and may receive maintenance and support as part of the leasing deal

The disadvantages of leasing

- If you lease the item long-term you'll probably end up paying more for the asset than buying outright
- Leased items are not classed as business assets and so can't be used as security
- You maybe limited on the types and makes of products you are allowed to buy

Finding a leasing company

Most high-street banks, a range of specialist independent leasing companies and some manufacturers themselves now operate leasing arrangements.

How much will it cost?

There are no standard deals and costs can vary considerably by sector and by business, depending on the risk involved for the lender. You will probably be asked for a deposit to help underwrite the deal – from 5-30 per cent. Computer equipment often requires a large deposit, while industrial equipment is often less and cars lower still. In fact many vehicle manufacturers provide interest-free finance, so purchasing a vehicle could actually prove to be a wise business choice.

It's vital to get independent expert advice. Get your accountant to analyse the figures and compare the tax benefits of buying outright against leasing. Your accountant should also be able to tell you if the overall cost is too high. Finance fees range from 1.25-10 per cent over base rate, depending on credit worthiness, and a negotiable due diligence charge of 0.25-1 per cent of the amount advanced may also be levied.

Lenders can be flexible on repayment patterns. You might be able to negotiate a deal whereby you pay a lump sum in advance, or at the end of the lease, and pay smaller monthly sums in between. Deals are typically for three to five years; repayment terms could be extended, though this is rare.

There are other cost benefits too. David Harnett, director of nationwide vehicle leasing firm Fleetline, says one of the biggest savings for small businesses can be in administration: "Typically, the responsibility for dealing with the fleet is tacked on to someone else's job. An operating lease or contract hire can be a hassle-free option."

Where to go next

To decide whether to lease or buy, visit: www.businesslink.gov.uk/lease

For advice, visit the Finance and Leasing Association at: www.fla.org.uk

Angel finance

Business angel investment can provide first-time equity fundraisers with more than cash – an angel's credibility, contacts and experience also count

If you are looking for financial input and guidance from experienced individual investors, angel finance could be for you.

Angels are usually wealthy entrepreneurs, and dealing with them is less formal than with other forms of equity finance. But they are individual personalities, so are also less predictable. As well as investing money, they can offer skills, contacts and experience, and some will fill gaps in your management team, either by offering advice or filling specific roles. Angels tend to offer smaller sums at an earlier stage than venture capitalists (VCs). This may help take the business to the point at which it is attractive to a VC firm. The most reliable way to source angels is to contact one of the many business angel networks, which sift opportunities for their pool of investors and arrange networking events for you to present your business.

The British Business Angels Association (BBAA), the trade association for business angel networks in the UK at www.bbaa.co.uk, will put you in contact with your local angel intermediaries.

What will angels back?

Angels invest in almost all industry sectors, but often prefer sectors in which they have experience. Most invest in businesses which are past the proof of concept stage but early and expansion-stage firms will also be considered.

What can it be used for?

Often to help businesses accelerate away from the start-up phase, and mature businesses sometimes use it to launch new products and services, open new premises, buy competitors or to take on staff as growth demands it.

IN BRIEF ANGEL FINANCE

- Between £10,000 and £2m can realistically be raised from business angels, either alone or in a syndicate
- Sourcing angel investors might require more searching than finding venture capitalists (VCs), but private investors are more prepared to back an early stage business
- Angels may be found through industry contacts, but a more structured approach is via business angel networks
- The process is less formal than with VCs – angels often know their sector well, and so make instinctive decisions
- You are likely to have a closer involvement with your investor as they look to add value to your business

ANGEL FINANCE

PROS

- Angels often invest smaller sums than VCs, so may suit newer businesses
- As well as funds, they may be able to offer skills, contacts and experience
- Business angels take much higher risks than other forms of fundings
- Investment occurs in most business sectors and at all stages of development
- Can be quicker and less formal than venture capital investors

CONS

- Angels invest in only a very small proportion of the investments they are presented with – more than 90 per cent of investment opportunities are rejected at the initial screening
- Many angels expect close involvement with the business they invest in, which not all businesses find desirable
- Loss of equity means loss of control of your business. This will not suit everyone

How much can be raised?

The amounts involved in angel funding vary widely, from £10,000 up to £2m. However, most deals done tend to be between £75,000 and £750,000. "Most angels invest £20,000 to £50,000 per deal. However, some are happy to put up to £200,000 if they really believe in a organisation. Most of the larger sums raised occur when syndicates are formed," says Anthony Clarke, chairman of BBAA.

How does the investment work?

Investment can be up front as a lump sum or may come in stages dependent on your business hitting specific milestones, such as achieving sales or launching an important new product or service.

Where can I find business angels?

Angel funding can come through personal contacts as well as industry contacts or suppliers. But the most structured way is to approach a business angel network regionally, close to your business – these each represent a group of private individuals looking for investment opportunities. The networks often operate in different ways – some are more active or more structured, so look at their client portfolio first.

Are there barriers to raising funds?

Angels are widespread and can be difficult to locate. You may spend months finding investors who are interested, however business angel networks do make this

CASE STUDY

Veritape found an angel network to be a good way to raise funds to target emerging market opportunities for its new call recording technology, explains sales director Cameron Ross.

"We underestimated the time involved. We wasted time speaking to banks, which were very disappointing. But we located a number of offers and were able to choose the people we felt most comfortable working with. We dealt with a syndicate of business angels and made it clear they had to appoint a single spokesperson rather than having multiple conversations. We had VC interest as well, but angels offered a quicker and more personal approach."

process much simpler. When you do track down a possible backer, the process of persuading them to invest can sometimes also be protracted – but persistence can pay.

"Because angels are individuals, they are unpredictable," says Rob Donaldson, corporate finance partner in accountancy firm Baker Tilly. "Their priorities can change and things can happen in their personal lives which you can't bargain for. With a VC there is a more rigorous process you can see and understand." For more on **venture capitalists**, go to **pages 26-29**.

What are the costs?

Angel finance, especially when sourced through a network, will involve costs and charges. If you go through a network there should initially be no charge to view your business plan. However, networks often charge up to around £1,000 (depending on services) to arrange for you to meet their angels. On top of this fee, there is also a success fee which averages at 5 per cent; ask a network about these fees at the outset.

Costs are lower than venture capital and **public market listings**; for more on these, go to **pages 30-31**. It is, however, a full-time activity for one person in your company, often the owner-manager, so the cost of time taken out of running the business should be calculated. And because it often involves early-stage companies and is consequently considered a high risk, investors may expect to take a large share in your business in return for their financial input.

How likely is a successful fundraising?

More than 90 per cent of companies seeking angel funding are turned down in the early stages, according to research by BBAA. Having a strong **business plan** is essential; for more on this, go to **pages 12-13**. You will also have to be able to demonstrate how your business will use any funds it raises to achieve specific growth objectives.

Angels may wish to visit your business to satisfy themselves that their investment is going to be a success and to work out their role in the company. Where you are dealing with a syndicate, the potential complications increase, as the various investors often have different concerns.

CASE STUDY Philip Evans is the founder of Pex Software, a property management software company, and is looking for a second round of angel investment.

"We have undergone an investment readiness programme with London Seed Capital (LSC) as part of the Government's Early Growth Funding initiative.

"LSC works with companies to get them investment-ready, and we have attended several training days about presentation and business planning.

"We have presented to their angel network as part of their *Dragons' Den* series, and although it involved loads of work and was very nerve-racking, having got through it we are confidently looking for other opportunities to present to networks.

"We now have four potential investors and the LSC has a venture capital fund that will consider matching any investment received from the angels."

EARLY GROWTH FUNDING

What is it?
Early Growth Funding is a government programme introduced to increase the availability of risk capital funding for businesses in the early stages of growth.

There are six individual funds and they operate by matching funds invested by angels and helping to form syndicates able to make larger investments. The funds invest on basically the same terms as angels and seek similar returns.

How much can be raised?
Typically match-funding up to £100,000 to supplement private sector investment of at least the same amount.

What type of company can benefit?
All businesses in an early stage of growth can be considered, including:

- New businesses or university spin-outs
- Innovative/knowledge-intensive firms
- Smaller manufacturers needing fresh investment to pursue new opportunities

How do funds operate?
Funds are managed commercially, with each fund responsible for vetting applications and placing investments. Exit will be in the usual way, through trade sale or flotation. Portfolios are expected to show a mix of sectors and business types.

How can I find out more?
For information and contact details for the various national and regional Early Growth Funds, visit www.sbs.gov.uk/sbsgov/action/home, click on the link to 'Finance', then to 'Sources of Finance'.

How quickly can I raise it?
Angels often undertake their own due diligence and the investment has a lot to do with personal feeling. Due to its somewhat informal nature (compared to the more standardised process used to secure venture capital), the angel investment process can take an unpredictable amount of time, although three to six months is typical.

What do angel investors expect?
Given the strong element of risk involved in many angel investments, investors tend to seek high rewards. For more on negotiating the terms of a deal, go to pages 34-36.

- Most will seek an exit in three to five years
- They will expect growth of their capital of at least 25 per cent a year, often higher
- Your management team may need to show equal commitment to the project, and be prepared to back the venture with their own money as well
- Market validation of your business through existing sales or known distributors is desirable, although it is not essential
- Business angels enjoy working with small businesses, so they expect to bring their expertise to the business. This means that they will wish to contribute to the business's strategy and direction, which does not suit all businesses

Where to go next

For more details about angel finance, visit: www.businesslink.gov.uk/angels

For more information about the BBAA, visit: www.bbaa.org.uk

Venture capital

If you're looking to raise more than £1m and are prepared to relinquish some control and equity in your business, then venture capital funding may be appropriate for you

Venture capitalists (VCs) provide finance to ambitious growing businesses in exchange for a significant stake in the company. Typically, they help finance a major expansion strategy. The VC takes some of the risk, has a say in direction, seeks a high return and usually tries to exit in three to five years, often through a trade sale or market flotation.

What do VCs look out for?

VCs will expect some proof of concept and maturity in the business, unless it is a new business with a proven management team or, after a period of research and development, is about to launch a new product or service.

"We want ambition, moderated with an appreciation of the risks of growing," says Bill Dempster, investment manager of Northern Venture Managers (NVM). "It needs to be informed and balanced." A great concept is not enough alone. You need to be planning and expecting rapid and continued expansion. It will help your cause if:

- You are near to profit already
- Your overheads are tight
- You don't make promises without foundation
- You and the management team are prepared to invest your own money too
- You don't over-value your business
- You have a good rapport with the VCs

What growth strategies will VCs back?

Those that represent aggressive growth and are more likely to deliver the returns VCs require, such as acquisition, new product or service launches, new markets, locations or the establishment of a chain.

How much can be raised?

You can raise £1m to £5m if seeking venture capital for the first time. Anything below £1m is difficult to raise and more expensive, which is why the Government set up Regional Venture Capital Funds to provide equity finance of up to £500,000. For more on this, go to page 28.

How will the business be valued?

Dempster says that valuing fledgling or pre-revenue businesses still developing

IN BRIEF — VENTURE CAPITAL FINANCE

- It usually takes between three and eight months to raise finance, sometimes more
- Owner-managers will often be expected to give up at least 20 per cent equity
- Regional Venture Capital Funds provide 'equity gap' funding of up to £500,000
- VCs back high-growth strategies, such as acquisitions; product or service launches; new premises; or national, European or global business expansion
- An exit through flotation or trade sale is expected within three to five years

VENTURE CAPITAL

PROS
- Some investors can add valuable skills and open doors for your business
- Investors may provide follow-up funding as your business grows

CONS
- An estimated 95-98 per cent of funding proposals are rejected by VCs
- Medium-sized to large investments are more attractive than smaller investments

products or making a market entry is more of an art than a science. "But a standard way for VCs to value a more established business is a multiple of the profits or earnings ratio – typically four or five times. Ultimately, it always depends on the nature of the business, potential and competitive pressures."

Where can I find VCs?

The British Venture Capital Association (BVCA) has a full list of members at www.bvca.co.uk, with details of investment preferences. Accountants, lawyers, corporate finance and business advisers are also well-positioned to introduce you to potential investors. Otherwise, other traditional routes are business contacts; networking events set up to match investors with ambitious businesses; and investment-readiness programmes run by VCs, accountancy firms and corporate finance specialists. Some VCs ask for enquiries through their websites.

What are the costs?

Advisers' fees are the main cost to consider:
- Corporate finance (CF) advisers usually take at least 5 per cent of the money raised. These advisers could be the corporate finance department of an accountancy practice or a specialised corporate finance boutique
- Typical legal fees are £20,000 to £30,000
- Specialist accountants will usually charge a percentage of funds raised or an hourly rate of between £200 and £400 in London, or £175 to £300 if outside. You also have to pay the VC fees and due diligence costs

Don't assume raising £500,000 means paying less, as the percentage is normally slightly higher for smaller fundraisings because they involve a similar amount of work. Overall costs vary widely from deal to deal, but are typically between 8-15 per cent of the money raised. Some advisers may take a part of their fees as equity options or may be prepared to work on a basis where they are only paid if the fundraising is successful.

And it is still cheaper than going public, where issuing a formal prospectus for a flotation through a nominated adviser could

CASE STUDY CEO of push communications business Skinkers, Matteo Berlucchi, raised £2m via NewMediaSPARK in 2006 for development and expansion

"We hired a specialist corporate finance boutique. About 99.9 per cent of VC deals that close are by introduction. We presented to 20 VCs and three or four were keen. We created a market to get better terms and a higher valuation. Terms are crucial – you could give away only 10 per cent or the first, say, £20m when you sell, or agree to the VC getting extra share rights."

EXIT STRATEGIES

When starting a business, plan how you will ultimately exit it. A good strategy can help maximise the value you get from capital you've built up, and end your involvement with minimal disruption to trading. It may occur at a planned time – or a strong market, for instance, might prompt you to sell or merge your business. For more on **exit strategies**, visit **www.businesslink.gov.uk/exitstrategies**

cost £100,000 to £300,000. For more on the costs and **expert advisers**, go to **pages 6-7**.

How quickly can I raise it?
Be aware it may take six months or more to complete the process, so you shouldn't embark on fundraising without enough cash in reserve. It can involve months of preparation, many visits to investors' offices (and overnight stays), detailed due diligence, and the disappointment of knock-backs.

How does the investment work?
You are unlikely to receive funds in one go unless you're prepared to give up significantly more in equity. Investors prefer to provide it when you hit pre-agreed milestones, such as turnover growth, or delivery of a target like an acquisition, or progress relating to products or services. VCs will often expect to agree a mix of debt and equity, to ensure investee companies are paying something back over the duration of the investment.

What rights do VCs expect?
In a typical deal, VCs will expect to agree certain rights of veto or areas where they expect to have an influence, including:

- Significant items of expenditure
- Hiring and firing key staff
- Major acquisitions, disposals or strategic alliances, and any fundraising strategies involving giving up equity
- Significant changes in business strategy

REGIONAL VENTURE CAPITAL FUNDS (RVCFs)

What is it?
An England-wide government programme set up to provide small and medium-sized businesses with risk capital of up to £500,000 over two rounds. The funds, which help to fill the 'equity gap' are commercially managed by experienced VC professionals. They have the intention of making significant returns and stimulating private sector investment in businesses with lower funding requirements.

What type of company can benefit?
Companies must:

- Employ 250 or less
- Have a turnover of less than approximately £24m or a balance sheet total below approximately £16m
- Have their head office or material part of the business in the region of the fund

There are a number of sectors not eligible for investment; for more detail on RVCFs and eligibility, visit **www.sbs.gov.uk/finance/rvcf**

Where are the funds?
There are nine funds, each with a different amount of total funding :

N.E. Fund – Northern Enterprise Ltd
East England – Create Partners Ltd

- Control over key staff members' and the management team's remuneration
- Dividend payments

There will also be restrictions over what management are able to do if they leave the business, such as being barred from forming a competing business, working for a competitor or poaching staff for a set period.

But while some of your autonomy may be lost, VCs expect to work with the investee company and share a common interest – growing the business. Providing you always communicate well and bear your investors' interests in mind too, the relationship can run smoothly. For more on **negotiation** go to **pages 34-36**, and for more on **investor relationship management**, go to **pages 37-38**.

What returns do VCs expect?

VCs usually want an annual return of 30 per cent on the investment, although – while not publicly acknowledged – this is currently slightly lower. You could feel pressure as early as 12 to 18 months in, depending on the investor and the condition of their portfolio.

East Midlands Fund – Catapult Venture Managers Ltd
N.W. Fund – N.W. Equity Fund
London Fund – London Fund Managers
Yorkshire and Humber Fund – Yorkshire Enterprise
S.W. Fund – S.W. Ventures
S.E. Fund – S.E. Growth Fund
West Midlands – Midven Ltd

For more details on **RVCFs** visit **www.sbs.gov.uk/finance/rvcf**
Alternatively, you can call your local **Business Link.** They will be able to provide you with information about funds that are available in your local area.

CASE STUDY

Managing director and co-founder of restaurant chain Las Iguanas, Eren Ali, raised £3m in VC funding and a bank loan in July 2002, in return for 35 per cent equity to roll out his business's concept. It is now self-funding.

"The business was too small and abstract for a public listing. Angels didn't have the expertise we required and the banks required security. VCs understood the cash-generative nature of the business and found it attractive. They are also able to build a top team around you. For us, the cultural fit was most important and of 10 interested VCs, six pursued it, but only one was coming from the right direction."

Others are prepared to wait as long as eight to 10 years. Bear in mind that the longer a VC remains involved, the more interest you'll be paying on the debt element of the deal.

To boost chances of achieving a sale or flotation, VCs will scrutinise your company's procedures, management team and accounting systems. This can often include your investor taking a place on the board, appointing an independent chairman or bringing in a finance director who has prior experience of working with VCs.

Where to go next

For more on **equity funding options**, visit: **www.businesslink.gov.uk/equity**

For a **directory of all UK investors**, visit the **British Venture Capital Association** at: **www.bvca.co.uk**

Should I float my company?

For raising over £500,000, a listing may be your best option. It is often the next step after angel and VC funding – but it can be a complex process

Initial public offerings (IPOs) involve floating your company either on the Alternative Investment Market (AIM) or on PLUS. There is typically more new capital on offer than from other sources of finance. They may be worth considering if your business:

- Has an aggressive growth strategy
- Has a strong record of profitability
- Is in an attractive sector
- Wants to raise its profile
- Needs up to £10m or more

What are AIM and PLUS?

AIM, the London Stock Exchange's (LSE) market for smaller companies, is often a first step to joining the main list. For more details on the **listing process required for AIM**, visit **www.londonstockexchange.com/AIM**

PLUS (formerly known as Ofex) is an independent UK equity market dedicated to small and mid cap companies. It is regulated by the Financial Services Authority and conforms fully to the UK's accepted standards of regulation. For more details on the **admission process required for PLUS**, visit **www.plusmarketsgroup.com**

Both AIM and PLUS are generalist and do not have sector preference. There are drawbacks, though. An IPO is the most time-consuming and expensive way to raise finance, and as a form of equity finance it means you have to give up some control of your business, consider shareholders' interests and provide twice-yearly updates on your company's progress. For advice on managing **investor relations**, go to **pages 37-38**. There is also no guarantee how well subscribed the offer will be; if it is priced too high, it could reduce the sum raised.

What can you use funds for?

A public listing is ideal for company acquisitions and enables you to use shares as well as cash to fund deals. Other growth strategies requiring ready capital and promising impressive returns – such as product launches or commercialisation – may also be appropriate, though you have to convince investors you have the capacity to match the promised growth. Early stage businesses represent a greater risk to investors than established ones, so must demonstrate a plan to get a return on their investment.

IN BRIEF FLOTATION

- PLUS is good for raising up to £5m. AIM is good if you seek £5m to £100m. Strong growth potential is necessary, and a track record of profit is usually helpful
- Fees account for over 10 per cent of funds raised on PLUS and AIM, more for smaller IPOs
- Flotation takes up to six months; you must be prepared to relinquish control and be strictly regulated

Directors who use the proceeds of a flotation as an exit from the business may be viewed as having a lack of belief in the company.

How much can I raise?
PLUS caters mainly for small and growing entrepreneurial companies looking to raise up to £5m through institutional and retail investors, although more is often raised through secondary fundraisings. You may raise more finance on AIM as it is favoured by institutional investors and caters for established businesses.

If your company isn't ready for an IPO, a method of raising smaller amounts (£100,000 to £500,000) is a private placing, with shares offered to a select group of institutional investors. In this case, you will be required to produce a prospectus. For more on **private placings**, visit **www.plusmarketsgroup.com** or **www.londonstockexchange.com**

What are the costs?

- Fees are made up of the advisory costs and the broker's commission, which is a percentage of funds raised. They also vary depending on whether it is AIM or PLUS, but they represent a higher percentage for smaller IPOs. Raising £1m at IPO could cost £250,000 or more, including legal and other adviser fees on AIM, but a float on PLUS could be achieved for as little as £50,000
- Expert advisers are the main cost, initially for the flotation, then to keep shareholders informed. For AIM a business needs a sponsoring nominated adviser (NOMAD). PLUS companies require a corporate finance adviser. Advisers orchestrate the process, linking you, the City, your accountants, lawyers, brokers and a financial PR firm

For more details on choosing the right **financial advisers**, go to **pages 6-7**

- Also calculate the cost of your management team being unable to focus entirely on the day-to-day running of the business during the flotation process

CASE STUDY
Travel promotions company MKM Marketing and Promotions raised £1.4m by floating 24 per cent of the company on AIM in June 2004. Marketing director Jon Harris feels their major plans for development made AIM the right option.

"In 2002 we bought ourselves back from British Airways. New products required additional investment, and flotation was the best fundraising option. We also wanted to increase the size of our call centre and consolidate three offices into one. The process was relatively painless as we were guided by our nominated adviser."

How quickly can I raise funds?
It varies according to the complexity of the flotation, the time given by the management and the ability of your advisers. Typically it takes five to six months.

To make the process faster, companies often start with an 'introduction' to one of the markets, meaning joining without raising funds. They can 'bed-in' and return for finance later. This lets institutional investors assess the management team and its ability to perform in the public arena. A market listing will be smoother if this goes well.

Where to go next
For more advice on **flotations, listings and IPOs**, visit:
www.businesslink.gov.uk/flotations

Making the perfect pitch

Whether pitching to angels, VCs or investors prior to a float, find out about presentations, what to cover, who presents and which tools to use

If you've reached this stage then a lot of the hard work is already behind you. Investors have seen your **business plan** or **executive summary** (for more, go to **pages 12-13**), and want to hear more. Facing investors can be intimidating, but careful planning will help you make the right impression.

Investors know business plans are often put together by consultants, so they will try to establish a real sense of your team, to see that all parties have similar expectations, and if they can add value to your business.

What format does a pitch take?

First meetings generally take place at the investor's offices, though some prefer to see your business and processes.
Some investors provide guidance on the presentation format, so ask first. Otherwise, after the introductions, you set the agenda.

You are typically expected to make a formal pitch, although some investors encourage informal discussion. Plan to talk for half an hour, covering 20 to 30 key points using 10-15 slides to pitch your business case. Backers may interrupt with questions, and will hold a more detailed Q&A session at the end.

"Have as many back-up slides as required. If the investor is interested he will ask to drill down in certain areas, so make sure the slides are clear and to the point," suggests Andrew Mayall of the Business Advice Bureau. Meetings can last from one to three hours.

IN BRIEF — THE PITCH

- Details of your management team are as important as your business concept
- Take a team of around three
- Aim to present for around half an hour
- Cover history, products, finances, the growth opportunity, market conditions, and a (SWOT) analysis
- Anticipate tough questions, and think about how you will answer them

CASE STUDY
Henry Stewart, CEO of IT training company Happy, raised £350,000 from a business angel in November 2003.

"Pitching to business angels and venture capitalists (VCs) is very different. VCs are more formal. The meeting is friendly but you're on the spot. Business angel funding proved a longer, less formal process, with a series of meetings over a couple of years. Our investor had many questions about due diligence, and about which part of the business we would sell off. The key factor is the quality of the management team, and the investor's faith in you as people. There may be a market opportunity – but the investor has to believe you can exploit it."

What should the presentation cover?

- Update them with anything that has occurred since you submitted your proposal
- The quality of your team is often more important than details of your products

Where next?
Pages 34-35 To find out how to negotiate the best deal

- Relevant industry experience and expertise
- Give a precis of the business's history, progress and financial performance to date
- Highlight market opportunities, identifying your customer and why your product or service will appeal; you need an enduring customer proposition. But see the investor's viewpoint – focus on the business opportunity
- Cover your balance sheet, cashflow, historic profitability, trends and projections. Justify targets with graphics such as pie charts
- Keep figures realistic. A common mistake is to exaggerate demand, sales and so on
- Do a Strengths, Weaknesses, Opportunities and Threats analysis; for more detail, visit www.businesslink.gov.uk/swot. It shows you have made a sensible, honest and considered study of potential flaws
- Offer investors a best and worst-case scenario of how your business may perform
- Conclude by repeating important points
- Meetings about the details of the deal come later, so don't attempt to discuss terms "There's a risk of irking an investor if you try to do this," warns venture capitalist, Norman Yarrow of Northern Venture Managers

Who should present the pitch?

Take a team of around three – the owner-manager should cover the areas above, with your sales specialist detailing the opportunity, and your finance manager the figures. Gauge your audience – a few light-hearted comments might help, but jokes can backfire.

What presentation tools should I use?

If confident, use a visual aid to supplement the presentation. PowerPoint is popular, but check the investors have the equipment; even if they do, take a back-up paper copy. Use graphics, but keep demonstrations short.

For a sample **presentation**, visit www.businesslink.gov.uk/equitypitch

For a directory of companies running **business training** courses visit www.businesslink.gov.uk/training

Should I do a rehearsal?

Do at least one practice run with your team, and read through your proposal so you don't contradict what's written in your plan. Agree key information so you don't produce conflicting figures, and familiarise yourself with financial jargon.

QUESTIONS INVESTORS ASK

1 Are you really filling a gap in the market – who are your potential customers, and is there a large spread or small concentration of buyers?

2 Do you understand your market – is it expanding or shrinking? What are the constraints?

3 What barriers face market entrants, and is the product easy to reproduce – any copyright or patent issues?

4 Have you suffered difficult trading patterns or loss-making periods?

5 Which staff are critical, and how can you encourage them to stay?

Where to go next

Further advice on **pitches** can be found at: www.businesslink.gov.uk/equitypitch

Agreeing the terms of the deal

Interested investors will issue a provisional contract called a 'term sheet'. Be prepared to ask some probing questions to ensure it's acceptable to you

After a successful pitch, investors will issue a 'term sheet', stating the conditions with which they expect to go ahead. It will set out the key points of the final contract, including a description of what is for sale, the amount they propose to invest, the funding method, their expected return and an exit plan. It is not legally binding and is open to negotiation. Your legal adviser should help you with the jargon (for tips on finding a solicitor visit www.businesslink.gov.uk/solicitor) and a corporate finance adviser or specialist accountant can show you where there is scope for negotiation. Ensure you hire advisers who are experienced in dealing with this level of transaction. For more on

professional advisers, go to pages 6-7. Deals are often made up of a combination of equity investment (finance for ordinary shares) and debt (a loan arranged by the investor). If you have a choice of backers, the term sheet will help you decide who to go with and what terms to accept. By signing it you will have agreed to deal exclusively with that investor. The deal must work for both parties, so you should consider the following questions:

IN BRIEF NEGOTIATION

- Businesses needing immediate capital will start from a weaker position
- Chemistry is often more important than raising the full amount
- Younger businesses, or less profitable ones, may have to give up more equity
- Exits can be determined by the investor; try to retain your rights here
- You've a right to know who'll be on the board and what powers they expect

Is the investor offering enough?

Be clear about this, you are selling a part of your business and the value of it will underlie all of your discussions. There is no 'right' price and no correct or wrong way to value it, which often means you and your potential investor disagree. Valuations depend on what the buyer will pay and what you will accept. However, the present value of expected future cashflow is one figure often used. For other ways to work out the value visit www.businesslink.gov.uk/valuations. You are in a stronger position if you have more than one offer on the table. Be confident. This is a meeting of equals; you aren't simply asking for a handout – you have something they want, too.

How does the investor assess their risk?

The risk the investor is prepared to take is hugely important and depends on a series of factors, including the overall state of the market, the maturity and financial track record of your business, and the ability of your management team. During the due diligence process, where investors scrutinise information about your company's past, present and future status, you will need to hand over a lot of intimate knowledge about your business. "Due diligence was tough. We faced a barrage of questions for six months," says Eren Ali, MD of restaurant chain Las Iguanas, which raised £3m in venture capital and bank debt. It is important to be upfront and honest about potentially deal-breaking issues, such as law-suits, tax investigations or just unexplained gaps in accounting or management. If they unearth things they feel increase their risk you may have to accept less favourable terms or lose the backer.

Are they the right investor?

No investor is perfect. One you feel most comfortable with may not be offering the full amount, while another may be prepared to back you all the way, but on terms you can't accept. Personal relationships are very important – you are going to get very close, so you should like and trust each other.

Will they offer further fundraising?

Investors may not like companies asking for more money without prior warning, so if you plan to seek second-stage funding, address this in advance. Also discuss bringing in other backers at a later date, what kind would be appropriate, and how you can prevent the original investor's stake being diluted. Try to retain as much flexibility as possible. Venture capitalists may even agree to provide further finance in future without taking more equity, according to Baker Tilly's Rob Donaldson: "Where the VC is a big shareholder they won't want to dissuade the management team by diluting their stake more, and funding to accelerate growth may be in their interests to hasten their eventual exit."

CASE STUDY Martyn Dawes, managing director of unmanned coffee bar retailer Coffee Nation, raised £100,000 in March 1999 and £4m in June 2000 with business angels, first, then a venture capital firm

"When negotiating, it sometimes pays to stick to your guns. I'd read that to raise £100,000 you should offer up to 70 per cent of your business, but I didn't want to dilute my stake, so I told the business angels it was 20 per cent. More than 20 angels agreed to invest around £5,000 each. The next day some had cold feet, but I was firm with them, and they stayed with us. We attracted three offers from venture capitalists, and we plumped for the one we felt most comfortable with. You don't want a bad relationship with your investors."

How long should the investor guarantee to wait before seeking an exit?

A typical exit period is three to five years. Some backers may want a clause in the contract to force an exit, while others are happy to wait until the most appropriate moment for company and investor. Ensure you have similar ideas of how to realise value in the business, then work towards that target. For more on exit strategies, see the box on page 28.

What is their track record like?

Every investor has a different house style, and it is useful to know what this is. Ask to speak to other companies in their portfolio, as they will know better than anybody how the backer works. Find out what type and frequency of reporting they expect, how

BEFORE YOU GO HEADLONG INTO NEGOTIATION

Enter negotiation with caution. The small print is arduous and stacked to dilute the risk for the investor, who may propose to structure a deal in an unexpected way. So, before you enter negotiations, ask yourself the following questions:

- How badly do you need the money?
- What terms would you accept?
- Could the company survive without investment and, if so, could you grow it at a slower rate and seek finance at a later date when better terms can be agreed?

involved they like to be in the running of the business, and how often they like to meet.

What is negotiable and where are the potential pitfalls?
The value of the business, amount of equity you give up, the interest on any debt element and legal issues are essential areas to discuss and negotiate. Confirm when you will be able to access funds, which may be structured and released in tranches, and what conditions are attached. Find out in what form the funds will be offered. "Nine times out of 10 investors will structure it (or much of it) as a loan, leaving you having to pay interest, but still giving away equity. Businesses often don't realise that. Earlier stage companies are less able to service debt though, so are more likely to receive pure equity, although they will have to sell more of the business in return," says Donaldson. He adds that interest on a loan note can range from 3 per cent to 15 per cent and is an area to negotiate on keenly – you could give up more equity, for example. If you have more than one offer, ask your corporate finance adviser to run a financial model for you to see which method will cost you more.

Can you vet a proposed board member?
Yes and you can ask almost anything you like. Venture capitalists are reluctant to impose somebody on a business. Ask about: their background and why the VC has put them forward; what skills, contacts and knowledge they can add; their intended role as a board director (are they monitoring progress or will they be hands-on?). Don't assume it's for the investor to suggest a non-executive director. You may know the industry better and be able to suggest a candidate who will add value to the business – although investors will still appoint one of their own too.

How serious are they?
Before you sign the term sheet you need to be convinced the investor is committed to the deal and will complete the process. Serious investors will start due diligence the day after you sign. "Be warned, some hand out a term sheet to knock out the competition, but will then slow the process, which could weaken your hand in future negotiations. It's not unreasonable to make them show they are serious," says Donaldson. Make it a condition of signing that they immediately start due diligence in return for exclusivity.

Where to go next

For more on the terms of a deal, visit: the BVCA website www.bvca.co.uk

Managing investor relations

Investment from angels, VCs or a flotation brings certain obligations – but understand them and all parties can enjoy a rewarding relationship

Once you successfully secure finance, you'll need to manage the relationship with the backer according to the terms agreed. Most backers expect feedback from regular reports, such as monthly accounts.

Equity investors may expect the minutes of board meetings and input into your business too, including the right to veto decisions. For more on the **typical rights** investors expect, go to **page 28**. Investors will also offer the benefit of financial advice, strategic guidance and help with recruiting management, as well as contacts and market information.

Delivering what you promise on profit revenues and customer volumes is crucial with all backers. It builds confidence, and, if you floated, the performance of your shares depends on it. Post-flotation you will rely heavily on your **nominated adviser**; for more on NOMADs see **pages 6-7**.

CASE STUDY Chairman of IT business Equinet Bob Jones raised £2.75m from venture capitalists (VCs), business angels and trade investors

"VCs and private investors have had a positive impact. Monthly reporting is a good discipline that helps us focus. But they shouldn't interfere too much. You know your business better than they do. Private investors sometimes want to get involved in the business, but that can cause confusion over who's running things. Our VCs appointed a non-executive director who attends the monthly board meeting. We report figures and he asks probing questions and gives advice."

What information do backers expect?

- If you have taken on debt, backers expect to see monthly management accounts and audited annual accounts. They may also look for some aged-debtor analysis
- Venture capitalists (VCs) will also expect in-depth coverage of your profit and loss, balance sheet, and cashflow. An analysis of your company's performance compared to budget is often necessary. In addition, commentary on progress made against stated goals at the point of fund-raising, and the forthcoming year's budget is required
- Active business angels may want similar levels of

IN BRIEF INVESTOR RELATIONS

- Keep communication personal, whether by phone or face-to-face – a good relationship can benefit you both
- Ask your backers what information will be required, how often, in what format, and by who
- Funds can boost your business, but may be withheld if targets are not hit, and deals can even be vetoed
- Make realistic projections; be honest about bad news

QUESTIONS TO ASK INVESTORS, TO MAKE THE RELATIONSHIP WORK

1 What information do you require us to provide (e.g. accounts, forecasts, analysis, commentary)?
2 What areas do you expect to have input on (e.g. management pay rises, acquisitions, appointments, new service or product launches)?
3 How often will we need to provide you with the required information (e.g. monthly, quarterly, annually)?
4 In what format do you expect it (e.g. Word document, PDF, Excel or other spreadsheet, PowerPoint presentation, a perfect bound document)?
5 How do you like to receive it (e.g. email, post, phone, face-to-face)?
6 Who should provide our business information to you and manage the relationship (e.g. the owner-manager or another board member)?

information; passive ones will be happy with monthly or quarterly reports

- Quoted companies' shareholders must have equal access to formal information, such as trading updates, profit warnings and information on takeover talks
- Expect frank questions from institutional shareholders. Don't bury bad news. Investors will be far more supportive if you are honest and may be able to offer good advice

How should information be provided?

The more personal and detailed the better. Investors expect to feel valued, while lenders want to know their money is safe. Try to combine sending financial information with meetings or phone calls, even if this has not been stipulated in the shareholders' agreement. In general, management and annual accounts are sent as Excel or PDF documents for ease and convenience.

How much input should be expected?

Lloyds TSB Commercial Finance's James Cullen says that it is worth discussing key decisions with lenders. While they don't have shareholding powers, they will offer as much input as possible: "The lender can act as a very useful sounding board."

Venture capital firms, by contrast, will typically expect a seat on the board, usually as a non-executive director. Your relationship with them will determine their influence.

Some angels want occasional contact, others phone daily. The input you accept largely depends on their stake. Baker Tilly's Rob Donaldson says: "If they are a minority shareholder with, say, a 20 per cent stake, you should listen to their views but you don't necessarily have to follow them. An investor with a larger stake has more influence."

Remember, your backers' aims are similar to yours – a healthy, profitable and well-run business. Keep them on-side early on, manage expectations effectively and the level of influence expected will gradually diminish as trust in your management team grows.

Where to go next

For further advice on financial and management accounts, visit:
www.businesslink.gov.uk/accounting

For more on investor relations, visit:
www.bvca.co.uk/publications/guide/investorrelation.html

Getting support for your business

The Government runs a number of schemes to help businesses grow. The kind of support your business is eligible for will usually depend on your location, the type of business or the specific project you're working on

The Government is committed to helping small businesses in the UK. It supports them with tax credits and allowances, loans, training, events and grants. A few are outlined here but for further information and for help with your application, go to a Business Link adviser.

Getting a grant

For most businesses grants sound appealing because you get an influx of cash that you probably won't have to repay. But in reality finding relevant schemes can be tricky, the application process can be slow and competitive, and the criteria are stringent.

Who hands out the money?

There are a multitude of UK business grant schemes available from the Government, the European Union, Regional Development Agencies, local authorities, Chambers of Commerce and County Enterprise Boards. To find out whether your company is eligible for grants in your local area, search the Business Link grants database at **www.businesslink.gov.uk/support**

Grant eligibility

Grants are almost always for proposed projects, not activities already under way. Projects may include opening up a new division or branch in an area in need of economic regeneration, or could be tied to new activities in existing businesses such as exporting or development. There are even grants to help companies benchmark their business against their competitors. Often the grant will go towards covering the cost of a consultant to come in and assist with these projects.

Strict terms and conditions are applied to grants. If they are not followed you may have to pay back the money.

Grants rarely meet the full costs of a project – you can typically expect to receive between 15-50 per cent of the total. This means you will need to find at least half of the required funds from alternative sources to cover the shortfall.

IN BRIEF | GOVERNMENT SUPPORT

- The Government has a range of schemes to support companies; these include grants, loans and allowances
- Grants might sound ideal but eligibility criteria are stringent and the application process can be long. They're usually only allocated for a specific project or purpose
- Regional Development Agencies run schemes, often focussed on innovation, to support local businesses
- Businesses can also make use of subsidised consultancy offered by experts in given fields
- Some private firms may also offer awards and loans to businesses at preferential rates

CASE STUDY Will Lebens, founder of marketing agency Airlock, secured £70,000 of funding through the Small Firms Loans Guarantee Scheme in 2002

"A Business Link adviser told us the scheme would enable us to raise capital despite being a new business. With his help we drew up a business plan proving the potential for growth and how we would spend the investment. We were able to move from an unused wool shop to a studio, invest in technology and staff and soon after we secured a landmark contract to handle Diesel's global marketing."

Applying for grants

Your local Business Link office will be able to help identify relevant European, national and local grant schemes. Before you apply, you'll need to have the following:

- A detailed description of the project
- An explanation of its potential benefits
- A detailed work-plan and full costings
- Details of your relevant experience and that of other key managers

For more detail on grant applications, visit www.businesslink.gov.uk/grants

Your proposal will be assessed on its relevance to the grant's aims, your approach and your expertise. Applications usually fail if the business plan is unrealistic, if there are no matched funds from the applicant, or if it's unclear how important the funds are to the project's success.

Regional Development Agencies

You should also approach your Regional Development Agency (RDA), which runs schemes to support local businesses. One of the main areas RDAs focus on is innovation. This means helping businesses to develop their skills, processes and products using the latest best practice and new technology.

For more details on the support offered by RDAs, visit www.businesslink.gov.uk/enterprisezones

Small Firms Loan Guarantees

If you're having trouble providing security for a bank loan you should investigate the Small Firms Loan Guarantee, offered jointly by the DTI, banks and other financial institutions. The Government underwrites loans for businesses in most sectors and purposes, though there are some restrictions.

The scheme guarantees 75 per cent of a loan of up to £250,000, with borrowing terms of up to 10 years, for businesses with an annual turnover of up to £5.6 million and which are up to five years old. In return, businesses pay a premium over the standard interest rate of 2 per cent per annum. For more details on how the Small Firms Loan Guarantee works, visit www.businesslink.gov.uk, then go to 'Finance and grants', 'Borrowing', then 'Loans and overdrafts'.

Community development

Community Development Finance Institutions (CDFIs) are a new financial tool that lend and invest in deprived areas and underserved markets which cannot access mainstream finance. They are sustainable, independent organisations that provide financial services with two aims: to generate social and financial returns. CDFIs provide loans from £50 to £1m. The average loan to micro-enterprises is £7,250, to small businesses £50,000, to social enterprises details, visit www.cdfa.org.uk. The venture capital fund, the Community Development Venture Fund (CDVF), is managed by Bridges Community Ventures Ltd and invests from £150,000 to £2m in businesses located in the most deprived wards in England. Visit www.bridgesventures.com

Getting support for innovation
The Department of Trade and Industry (DTI) Grant for research and development (R&D) provides finance for innovative products and processes. Grants are available for:

- Micro projects, ie low-cost development projects of no longer than 12 months. A grant of up to £20,000 is available to businesses with fewer than ten employees
- Research projects to investigate the technical and commercial feasibility of innovative technology. A grant of up to £75,000 is available to businesses of fewer than 50 employees
- Development projects to develop a prototype product or process, involving a major technological advance. A grant of up to £200,000 is available to businesses of fewer than 250 employees
- Exceptional development projects involve a major technological advance and are strategically important for a technology or industrial sector. A negotiable grant of up to £500,000 is available

All grants are administered for the DTI by the nine English RDAs.

The Technology Programme which is run by the DTI and encourages research and development and the sharing of knowledge for certain technologies identified as critical to the UK economy. Grants are available for Collaborative Research & Development and to set up Knowledge Transfer Networks. To find out more about these activities, visit www.businesslink.gov.uk and follow links to 'Exploit your ideas', 'Research and development', then 'Innovation, research and development grants'.

Other government allowances
Your business could be eligible for other government schemes. For example, a range of tax allowances exists for new businesses, including capital allowances for investment in equipment and premises (so you can deduct a proportion of these costs from your taxable profits over several years, so reduce your tax bill) and stamp duty relief in disadvantaged areas. Visit www.businesslink.gov.uk/taxbreak to see a checklist of the tax advantages for new businesses.

Tax credits are also available for trading businesses. Examples include research and development tax credits, awarded to small businesses that encourage innovation. Visit www.inlandrevenue.gov.uk/randd/index.htm

Support from private firms
It's not only the Government that provides support and grants for businesses, many private firms also offer awards and assisted loans. The National Endowment for Science, Technology and the Arts (NESTA – for details, visit www.nesta.org.uk) runs the invention and innovation programme that supports people with outstanding ideas for new products or services, often at a much earlier stage than other funders.

To find out what other private support is available to your company, visit www.businesslink.gov.uk/support or visit your local Business Link adviser.

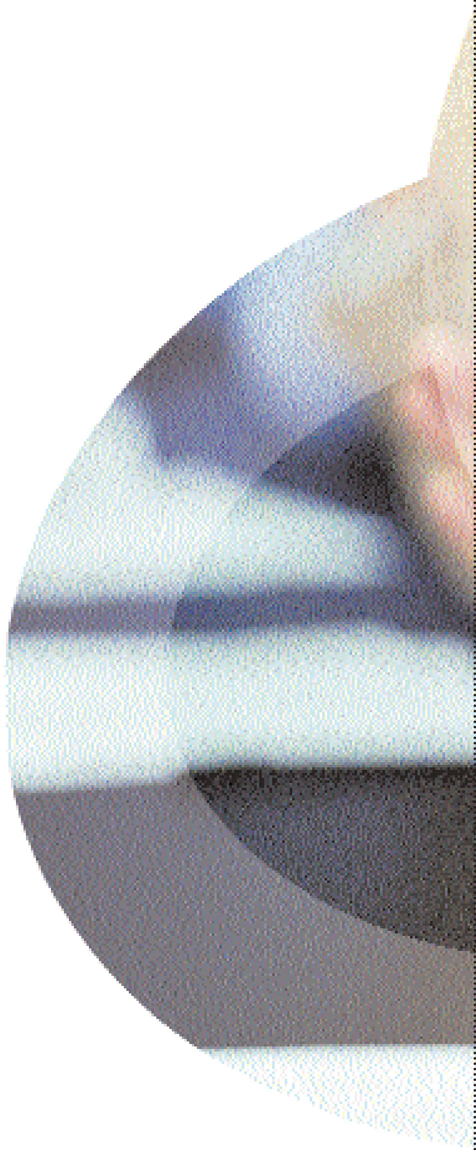
Where to go next

For a directory of schemes available in your area and for your business size, visit: www.businesslink.gov.uk/support

Think your business needs finance to grow to the next stage, but not sure where you can find it?

If you run a successful business and are looking to expand, there are a range of potential finance options. The **No-Nonsense Guide to Finance for High Growth Companies** can help you locate the most appropriate one for you, and advise you on the best way to secure it. This guide covers:

- Drawing up a business plan
- How to best utilise bank loans
- Investment from business angels and venture capitalists
- Deciding whether to float your company
- Making a pitch, and negotiating terms
- How to manage investor relations



Business Link
This guide is brought to you by **Business Link** on behalf of the Department of Trade and Industry. Contact **Business Link** for a wealth of information and support services to suit your individual needs:
Tel: **0845 600 9 006**
www.businesslink.gov.uk

This publication is available in alternative formats

Other No-Nonsense Guides available from Business Link include:
The No-Nonsense Guide to Small Business Funding
The No-Nonsense Guide to Government Rules and Regulations for Setting Up Your Business

For business support and advice:
- In Lowland Scotland contact **Business Gateway** (Scotland) **0845 609 6611 www.bgateway.com**
- In Scottish Highlands & Islands contact **Highlands and Islands Enterprise 0845 609 6611 www.bgateway.com**
- In Wales contact **Business Eye 0845 796 9798 www.businesseye.org.uk**
- In Northern Ireland contact **Invest Northern Ireland 028 9023 9090 www.investni.com**

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Every reasonable effort has been made to ensure the information contained in this guide is accurate, but neither the DTI nor Business Link accept any responsibility for any errors or omissions.

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