

Funding a Business

Using banks and other financial institutions

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Presentation Outline

- **Introduction**
- **Sources of finance**
- **What are lenders looking for?**
- **Preparing to raise finance**
 - Business plan
 - Financial model
- **Who to contact and help available**

Introduction / Before you start fundraising

- **What do you need the funds for?**
 - Start up costs
 - Working capital
 - Capital investment
 - Purchase a property
- **How much?**
 - Prepare an income & expenditure statement
 - Take into account the timing of payments & receipts
 - Contingency
 - SWOT analysis / bullet point notes

Three Main Sources of Finance

- **Your own money**
 - Savings
 - Personal borrowing
- **Banks and Other Lending Institutions**
 - Cash lent for a period of time
 - Interest is payable to the bank on amounts borrowed
 - Capital is repaid at some time in the future
- **Outside Investor offering Equity Finance**
 - Cash invested in return for a share of ownership
 - Rewarded in share of dividends and sale proceeds
 - Shared Risk

Your Own Money - Options

- **Cutting costs**
- **Reducing working capital**
- **Savings**
- **Personal borrowing**
- **Credit Cards**
- **Friends & family**

Your Own Money – Considerations

- **Charge the business interest on monies loaned**
 - You will have to declare the income on your tax return
 - No NI to pay
 - Allowable expense for corporation tax
- **Often the only source of funding available**
- **Don't use all your funds and then go to the bank**
- **Consider mixing with bank lending**

Banks and Other Lending Institutions – Who?

- **High street names**

- HSBC, Barclays, RBS / NatWest, Lloyds, HBOS, Abbey

- **Other banks**

- ING, Capital One, MBNA
- Deutsche Bank, Societe General, ABN Amro

- **Specialist finance houses**

- Bibby
- Alex Laurie
- Lombard
- Syscap

Banks and Other Lending Institutions

Lending Facilities Offered

- **Overdrafts**
- **Loans**
- **Invoice finance**
- **Asset finance**
- **Hire purchase / Credit sale**
- **Leasing**
- **Small Firms Loan Guarantee Scheme**

Loan v Overdraft

Loan

- Lower rate of interest
- Easy to budget
- Can match the term of your loan to your requirements
- Ideal for longer term financing requirements e.g. purchasing equipment
- You may end up paying interest on funds that you're not using
- Not normally recalled unless default on payment
- Often charge arrangement fees in addition to interest

Overdraft

- Higher rate of interest
- Often charge arrangement fees in addition to interest
- You only pay interest on the amount borrowed
- Ideal for managing working capital demands on your cash flow
- Leaves no contingency
- Can easily be recalled or reduced by the bank

Outside Investor

- **Business Angels**
 - High net worth individuals that invest on their own or in a syndicate
 - Typically invest between £10,000 and £750,000
 - Make their skills, experience & contacts available
- **Venture Capital (Private Equity Finance)**
 - Usually invest more than £2 million
 - Look for high earning potential in a defined period of time
 - Regional VC Funds will invest smaller amounts
 - Will want some control especially over key decisions
- **Enterprise Capital Fund**
 - Available to SMEs
 - Government money to match private equity investments

Business Angels v Venture Capitalist

<u>Business Angel</u>	<u>Venture Capitalist</u>
<ul style="list-style-type: none">• Make decisions quickly• Add expertise• Contacts and network• Local• Involved at board level & day to day• Often take a salary• Don't make investments often so may be hard to find• Moderately expensive to set up	<ul style="list-style-type: none">• Can provide large sums of money and access to more if you need it• Want to see a proven track record (not start-up)• Contacts and network• High pressure• Expensive and time consuming to set up• Board representation• Exit strategy

What are lenders looking for?

Banks

- **Business plan**
- **Security**
 - Personal guarantee
 - Property
 - Debtors
 - Stock
 - Equipment
 - Vehicles
- **Ability to pay interest**
 - Interest cover (EBIT / net interest)
 - Gearing (debt / shareholder funds)
- **People**
 - Successful track record
 - For you to take a risk as well

What are lenders looking for?

Private Equity

- **Extensive business plan & presentation**
 - Expertise & track record of management team
 - Unique selling point (competitive edge)
 - Market characteristics & growth potential
 - Market expertise
- **Compatibility between management / market proposal / investor expertise**
- **Funding required**
- **Equity**
 - High risk / high reward
 - Don't need owners to invest but won't finance your salary
- **Exit plan**
 - Trade sale
 - Stock market floatation / AIM listing
- **Some degree of control especially over key decisions**
 - Board representation

Summary - Advantages & Disadvantages

	<u>Advantages</u>	<u>Disadvantages</u>
Your Own Money	<p>No additional pressure</p> <p>No demands for a return on investment</p>	<p>Risk to you and your family</p> <p>May miss out on additional expertise</p>
Borrow From a Bank	<p>No equity dilution</p> <p>Flexible</p>	<p>Interest charges & arrangement fees</p> <p>Security & personal guarantees</p>
Outside Investor	<p>They share the risk</p> <p>Additional expertise</p> <p>Attracts other lending</p> <p>Follow-up funding</p> <p>Exit plan</p>	<p>Set up is demanding & costly</p> <p>Equity dilution</p> <p>Loss of control</p> <p>Additional costs</p>

Preparing to Raise Finance

- **Business Plan**
- **Financial Plan**
- **Accountant / Adviser**
 - Can help you to write the business plan and financial forecast
 - Sounding board for your ideas and plans
 - Established market contacts
- **Lawyer**
 - Necessary for equity finance

Business Plan

Contents

- **Executive summary**
- **People**
- **Marketing plan**
- **Products**
- **Financial history**
- **Strategy**
- **Financial forecast**
- **Appendices**
 - 3 year financial forecast

Suggestions

- **Keep the plan balanced**
- **Not too long and use appendices**
- **Identify strengths and weaknesses**
- **Consider market opportunities and threats**

Financial Plan

- **Financial history (1 to 3 years)**
- **Financial forecast (3 to 5 years)**
- **Model**
 - P&L
 - Balance sheet
 - Cash flow
- **Modelling tools**
 - Business plan templates available on Microsoft Office website
 - Business Link Excel Models (sales forecast, cash flow, P&L)
 - Online course on written communication from Learn Direct
 - Excel
 - Sage WinForecast

Who to contact

- **Banks**

- All the High Street names
- Lending criteria varies between lenders and over time

- **Venture capital**

- British Venture Capital Association (www.bvca.co.uk)
- “A guide to private equity” by PricewaterhouseCoopers / BVCA how private equity firms appraise proposals and arrive at their required equity stake.

- **Business angels**

- The British Business Angel Association (www.bbba.org.uk)

- **Business link (www.businesslink.gov.uk)**