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A GUIDE TO

BUSINESS FINANCE & FUNDING

CATTANEO
CORPORATE FINANCE

ABOUT CATTANEO

BACKGROUND

- An independent corporate finance lead advisory practice established in 2005
- Dedicated to providing outstanding service to clients in both public and private arenas
- Team comprises corporate finance professionals with experience gained across Private Equity, Investment Banking, Corporate Stockbroking and International Accounting Firms
- Based in Birmingham, United Kingdom, operating internationally
- Full range of corporate finance services
- Deal size from £0.5 million to £100+ million

WHAT WE DO

Cattaneo specialises in bespoke corporate finance advice and execution services for private and public companies, investors and management teams tailored to meet our clients' needs.

- Cross border acquisitions and disposals
- Private equity
- Debt finance
- Fundraising (including start-up, development capital and cash out)
- Management buy-out (MBO) / Management buy-in (MBI)
- Business plans and financial models
- Valuations
- Initial public offering (IPO)
- UK Listing and AIM Rules
- UK Takeover Code (including acting for overseas acquirers)
- Pre IPO funding
- Takeover, both hostile and recommended including Rule 3 advice
- Corporate governance
- Strategic investment

INTRODUCTION

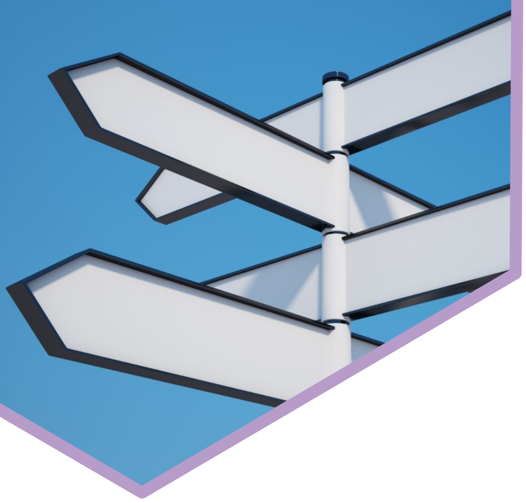
Finance lies at the heart of every business, be it a question of boosting profits, managing costs, ensuring that operations and processes are as efficient as possible, or securing the funds necessary for growth and expansion.

Finding and securing finance is always challenging. This guide looks at the different types of finance available and the types of businesses and applications where a particular type of funding is likely to be the preferred option.

SOURCES OF FINANCE

Some of the more common sources of finance are:

- Overdraft
- Loan
- Asset finance - hire purchase and leasing
- Invoice discounting and factoring
- Commercial mortgages
- Government-backed regional authority schemes
- Venture capital and private equity
- Business Angels
- Friends and family



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THE FUNDING CHALLENGE

Assessing and ensuring a business has sufficient funding is an integral part of the business planning process. Often it will highlight the need for a business to raise further funding which may involve a complex and lengthy process .

The rules of funding changed radically after the global credit crunch in 2008/9 but there have been significant developments in the years since then.
For larger companies, debt was perceived as the way to maximise shareholder returns, while smaller and early stage companies regarded it as the only source of external finance that would allow them to retain control of their business.

Those days are behind us, at least for the time being. While the majority of businesses are still financed with debt, other funding options can be considered and their strengths and weaknesses appraised given the business' needs.

THE OPTIONS

There are several funding options available depending on the business background and sector, the reasons for seeking to raise finance and the stage a business is at in its evolution.

TYPES OF CAPITAL

DEBT FINANCING OPTIONS

- Overdrafts
- Trade finance
- Term or cashflow loans
- Asset based lending
- Commercial mortgages
- Invoice discounting
- Hire purchase and leasing

EQUITY FINANCING OPTIONS

- Venture capital and private equity
- Angel investors
- Friends and family
- Crowd funding

Many businesses are funded with a combination of various types of finance.
The needs of the business and access to these sources influence the final mix.

DEBT FINANCE

Money is borrowed, typically from banks or other financial institutions. Monies outstanding attract interest and there is generally an agreed repayment schedule, although the timing of this can be tailored to meet the needs of the parties involved.

Borrowings can be either secured or unsecured. Business owners typically retain control of their businesses and debt financing is perceived to be less complicated to obtain. This form of funding continues to be competitive as banks' balance sheets continue to strengthen and a number of new entrants have arrived on the scene.

OVERDRAFT

Overdrafts are typically advanced by the business's existing bankers to provide for the short term cash flow needs of the business. They are meant to be short term and the expectation is that the level of the overdraft will fluctuate over the term of the facility up to the limit agreed. Ideally this fluctuation will not only include movements within the levels of the facility, but going into credit at certain times during the period.

The purpose of the overdraft is to finance working capital. This type of funding can be standalone or form part of a package of finance to meet the overall funding needs.

An overdraft will typically be secured on the assets of the business – generally with debentures or against specific assets.

In the case of smaller businesses, support from the business owners, in the form of personal guarantees, may be required if the levels of assets do not provide the funder with sufficient security for the amount of the advance.

TRADE FINANCE

Trade finance is the provision of finance to enable goods to be purchased to satisfy a specific order and is provided by the financier to bridge the funding gap between purchase and sale. Levels of funding depend on the specific circumstances but can be 80% to 100% of the cost of goods plus duty and VAT.

TERM LOANS

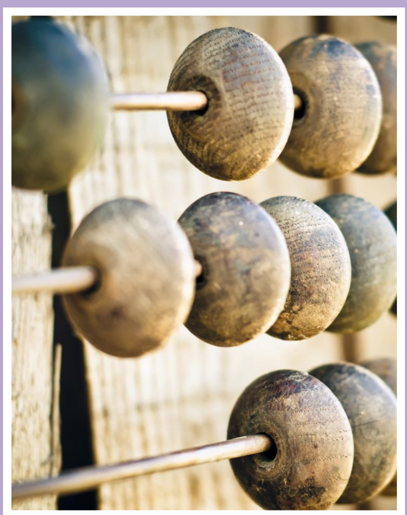
A term loan is a loan from a bank or other financial institution that has a specified repayment schedule and a fixed or variable interest rate. Term loans almost always mature within three to six years unless supported by a property asset.

Term loans are typically advanced for specific purposes – investment in fixed assets, acquisition of businesses or specific business growth activity.

Security will be taken via debentures or against specific assets. Again, in the case of smaller businesses personal guarantees may be required if the levels of assets do not provide the funder with sufficient security for the amount of the advance. Where cashflow can be demonstrated to be strong, stable and reliable, term loans may be made against this strong cash generation, greatly exceeding the levels of security available. Such loans are often referred to as "cashflow loans".

The Enterprise Finance Guarantee (EFG) is a Government backed scheme to help small businesses struggling with finance. Under the scheme, the Government aims to provide viable businesses – which lack collateral and, in some cases, the track record – with the working capital and investment that they need.

EFG can guarantee loans of up to £1-2 million. In this situation, EFG provides the lender with a government-backed 75% guarantee against the outstanding facility balance, potentially enabling a 'no' credit decision from a lender to become a 'yes'.



ASSET BASED LENDING

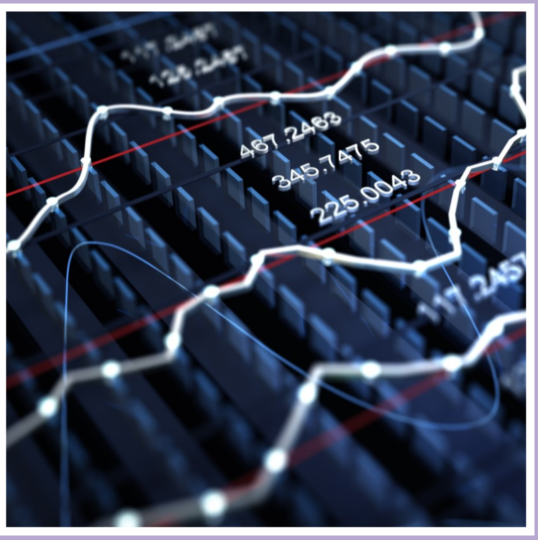
Asset based lending (ABL) is the all-encompassing term that describes borrowing against a company's assets. These assets include the sales ledger, plant and machinery, stock and freehold property. ABL usually generates more funding capacity than traditional secured facilities such as an overdraft, as it allows stronger security to be taken on specific assets whose collateral value the ABL lender understands in detail. ABL is provided by many of the high street banks, but there is a growing market populated by independent lenders specialising in this form of borrowing.

COMMERCIAL MORTGAGES

Commercial mortgages are loans secured on a business' freehold property. They are used to finance new or existing land and buildings . They are usually the most keenly priced finance solution. As with other mortgages, the commercial lender has legal claim or lien over the property until the liability has been fully paid back.

INVOICE DISCOUNTING & FACTORING

Invoice finance – which includes invoice discounting and factoring – is a form of asset based lending that involves borrowing against a sales ledger. The lender will advance up to 90 per cent (sometime more) of an invoice as soon as it is sent to the customer.



FACTORING

Factoring companies will buy your company's debts and then collect them themselves. Consequently the fact that the debt has been sold to a third party will be disclosed on the invoice. They will then advance to you a fixed proportion of the outstanding invoice value until the debt is settled.

INVOICE DISCOUNTING

Invoice discounting is similar to factoring – both provide flexible finance solutions and allow a company to improve its cashflow by borrowing against its sales ledger. However, with invoice discounting the company retains the responsibility for chasing payment from its customers and retains control of their customer relationship. The customer is not made aware of the financing arrangement.

Invoice discounting has become a far more established form of lending in recent years. Funding through invoice discounting or factoring will grow with the business as the sales ledger increases, providing the business with more working capital. Conversely invoice discounting facilities will reduce if the level of sales decline.

HIRE PURCHASE AND LEASING

Businesses can have large amounts of capital tied up in fixed assets – e.g. plant and machinery and vehicles. Buying new plant and machinery and vehicles with cash can be a significant drain on the cash and resources of a business.

Hire purchase lenders advance monies secured on existing or new plant and machinery and vehicles.

An alternative is leasing. Leasing is basically a rental agreement giving a business the right to use an asset owned by the finance company for a fixed period of time in return for regular payments. It is possible to lease just about anything, from equipment valued at a couple of thousand pounds to assets worth millions. Leasing contracts are flexible and can be tailored to a business' needs.

EQUITY FINANCE

Equity finance can be sourced from financial institutions and individuals. Terms vary greatly depending on the type and amount of monies involved, the purpose of the equity financing and the stage of development of the business and the levels of risk and reward.

Equity financing involves the funder taking a stake in the business and hence sharing in the risks and rewards of the business. Equity investors usually generate their returns from an eventual sale of the business and through dividend payments which depend on the growth and profitability of the business. Because of the risk to their funds, equity investors expect a higher return than secured lenders.

VENTURE CAPITAL & PRIVATE EQUITY

Venture capital and private equity funds provide finance to companies with potential and growth in the interest of generating a return through an eventual realisation event such as the sale of the company.

In simple terms, an investment firm will typically invest in companies with products or services with a unique selling point - or competitive advantage - with the potential for high returns. They are often looking for evidence of a proven track record although a venture capitalist will sometimes invest in start ups where there is demonstrable high growth potential.

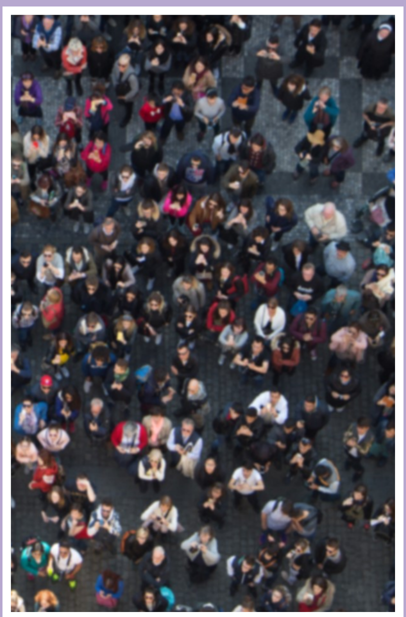
A private equity house can bring a wealth of expertise to a business as well as management and financial skills. They don't normally get involved in the day-to-day running (unless things go wrong), but will often be able to help with business strategy.

This type of funding typically comes from institutional investors, such as pension funds, and wealthy individuals and is pooled together by dedicated investment firms.

ANGEL INVESTORS ('BUSINESS ANGELS')

Angel investment is where a wealthy individual provides capital (typically £50,000 - £500,000) in return for a stake in the company.

The investor will likely also bring valuable expertise and have goals closely aligned to those of the business owner.



CROWDFUNDING

Crowdfunding involves the use of the internet as a platform to put a funding proposal in front of an investor base that comprises corporate and individual members who make decisions on whether to invest or lend money to specific business opportunities.

Amounts that can be raised are increasing all of the time with £2m or more now achievable.

Typically the shares issued to the crowd funders are non voting or with limited rights. Recent development mean that debt as well as equity can be raised through crowdfunding platforms.

FRIENDS AND FAMILY

Investment is provided by the business owner and close associates of the owner. In a start up environment this can be the only funding route available and demonstrates the commitment of the entrepreneur.

However, this option rarely provides sufficient funding to take the business beyond initial start-up phase.

CONCLUSION

All businesses are different and circumstances vary widely when seeking to secure funding.

Long established businesses with a good stable track record are likely to have different financing needs and have access to different funding sources than new ventures. But the process to successfully secure funding and the steps that need to be taken will overlap in many areas.

WHY CATTANEO

Your adviser needs to be an experienced corporate finance adviser with a proven track record in raising finance.

WHAT MAKES CATTANEO DIFFERENT?

- Our flexible approach that is client centric; we want to know and understand our clients' drivers and objectives and forge a close working relationship with them. Our advice is centred on helping clients to achieve their corporate and personal objectives.
- Our fees are weighted towards a contingent fee on success, designed to align our motivation with that of our clients.
- We have a dogged determination to provide solutions which make business sense.
- We offer value for money based on excellent experience and track record combined with a low overhead structure.
- Our team has direct experience in private equity, banking and industry.

CATTANEO

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