Pentagon Finance International

RAISING FINANCE - By Arthur Ngoka.

Finance is required by all businesses and those with ambitions to grow are likely to require several rounds of finance.
Raising finance should be incorporated into a business's long-term plans. Revision of this will then be required to meet new unforeseen projects.

When is Finance Required?
Finance will be required at every stage of the business cycle. This can be to maintain the business but is more usually used to fund growth, either organically or through acquisition.

Raising finance must be planned. Raising it at short notice will place directors and owners at a disadvantage. To avoid this, each time finance is raised, enough should be raised to see the business through at least the next two years.

Funding requirements should be anticipated. Looking for sources of finance when it is not required can be advantageous. The funders appetite for the deal can be increased by the engagement period. Confidence in the business to achieve its business plan gained in the period up to finance is actually required will attract lenders.

Types of Finance
Apart from internally generated funds, there are four broad categories of finance available. Choosing the right finance will depend on needs and circumstances. A mixture of sources will often be appropriate.

- Debt Finance
- Working Capital Finance
- Equity Finance
- Other Sources

Debt Finance
This covers overdrafts and loans, ranging from short to long term with variable or fixed rates. Debt finance is seen as a traditional source of funding. However it often relies on the quality of the underlying assets of a company and can be inflexible.

Schemes such as Small Firms Loan Guarantee Scheme are available where security is limited. Here the government secures part of the loan for the company. However this tends to cover only small sums and has a rigid criteria.
See our Help Sheet "Small Firms Loan Guarantee Scheme" for further information on this subject.
The variety of debt finance is often underestimated and it is important to find a lender who fits the needs of the business. This will include repayment levels and timing, as well as fees.

Working Capital Finance
This uses the current assets of the business to generate funds, including leasing, factoring, invoice discounting and trade credit.
The popularity of financing book debts and stock has soared. Traditional stigma attached to factoring has gone.
Factoring tends to be flexible allowing finance within 24 hours of invoicing a customer. A fee is charged as a percentage of the debt advanced.
It is not suitable however for complex contracts or those with a small customer base.

Equity Finance
Raising funds through issuing equity can be effective.
Venture capital, be it from business angels or from funds, is about generating a high return from a portfolio of investments. The return is to repay them for the risks that they take, but they still want to reduce those risks as far as they can. This leads to further hurdles – terms and pricing.

A venture capitalist supplies unsecured financing, usually of sums in excess of £250,000, in return for a proportion of the company's shares. A projected return of 25 per cent within three to five years is the least a venture capitalist will settle for, and targets as high as 30-40 per cent are common.
Venture capitalists look for a team with a good management track record, products and services with a strong competitive edge, owners willing to sell their shares, realistic and detailed business plans, and a clear exit plan within a defined timescale, in the form of a trade sale or repurchase. Competition for deals is tough – for every plan the venture capitalists accept, tens more are rejected.

Business Angels
These are wealthy individuals willing to provide a company with capital in exchange for a proportion of its shares. But these deals are more personal and comparatively informal in comparison with venture capital. They will fund sums well below £250,000 as well as providing early-stage capital. The expected returns may be slightly lower than those of the venture capitalists because angels are often looking for rewards beyond the purely financial.

Business angels are particularly useful in that they bring their own experience, skills and often contacts to the table. This characteristic makes individual chemistry with the company directors important, since angels will usually demand close involvement in the firm, such as a seat on the board. Angels offer more flexibility than venture capitalists and the initial negotiations need not be as protracted. However the level of involvement and the restrictions on freedom of action can be too much for some businesses.

Other Sources
Other sources of financing include grants. These are often overlooked but can be available and very useful.
Not all businesses or areas can benefit but consideration of availability is worthwhile when seeking funding.

Summary
The best finance for any business will depend on its needs, resources and structure. Consideration must be given to the requirements through a business plan.
The optimum finance providers can then be approached and funds raised to suit the business.

Further Information

Pentagon Finance can assist you with all aspects of raising finance from identifying your needs to assisting with sourcing the right finance package. For further advice and assistance our specialist Corporate Finance guru [Arthur Ngoka] who will be pleased to help

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