A PRACTICAL GUIDE TO

RAISING FINANCE

JACKSON STEPHEN

ACCOUNTANTS / ADVISERS

A REAL ASSET

RAISING FINANCE

Whether you are restructuring or renegotiating existing debt or raising additional funds for an MBO, acquisition or simply organic growth, the type of finance used should always be consistent with its intended application.

DEBT

Debt may include loans, overdrafts, leases, factoring and invoice discounting and may be long or short term, secured or unsecured.

The lender does not generally have a share of the business but receives interest at an agreed rate and depending on any security may take control of certain assets if this is not paid.

The key features to look for in a debt package will be the interest rate, repayment profile, security required and financial covenants.

EQUITY

Equity is the term used to describe shares in a business conveying ownership.

On winding up of the business the shareholders will only receive a distribution after lenders and creditors have been paid. Therefore an equity investment is usually riskier than debt and thus the return to that shareholder is expected to be higher.

Venture Capitalists provide the most common source of equity and they are likely either attached to banks and insurance companies or independent private management companies who raise funds from a variety of institutional investors such as pension funds. Alternatively equity may be raised by "business angels" who invest private money in businesses.

In recent years hybrid sources of finance have developed to bridge the gap between debt and equity such as mezzanine.

Equity is often comprised of either preference shares, which usually attract a fixed dividend and may well be redeemable within a defined period and/or ordinary shares, which are usually entitled to participate in the ownership and profit share of the business.

The key features to look for in any offer of equity finance will include the deal structure (split of ordinary and preference shares), the envy ratio (the amount of shares held by the original owners and that of the funders) dividend structure, any performance criteria attached to the equity stake, the exit plan and any constraints over the operations of the business imposed by the funders.

RELEVANT BUSINESS FACTORS

When developing a funding plan it is important to consider the following:

Cash Flow and Gearing: This is the most critical factor and it is of crucial importance that any funder understands your business's projected cash flows. The cashflows should be robust and include sensitivity on key areas. They should address the predictability of future orders, prospects for the market place, and types of customers.

Assets: Generally in addition to projected cash flows assets will be required to secure finance.

Management: More and more emphasis is being placed on the strength of the management team. In evaluating funding applications, potential funders must have confidence in the ability of management to achieve the business plan and cash flow projections.

FUNDING SOLUTIONS

Jackson Stephen is highly experienced at developing funding solutions for clients, whether in the form of debt or equity finance.

Having an adviser who can lead negotiations, ask difficult questions and push for better terms without damaging your important ongoing relationship with the lender is extremely valuable.

Jackson Stephen work with their clients to understand their business and its financing requirements, both immediate and future. We are experienced in helping management teams, corporate and private shareholders raise private equity and/or debt finance to support growth, release value or refinance.

We have an extensive network of contacts within all of the major UK banks, as well as relationships with specialist funders such as private equity/venture capital firms, asset-based lenders and regional development funds. We work with the funders to obtain the best offer and assist our clients through the due diligence and legal processes.

KEY CONTACTS

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