Business Funding Guide

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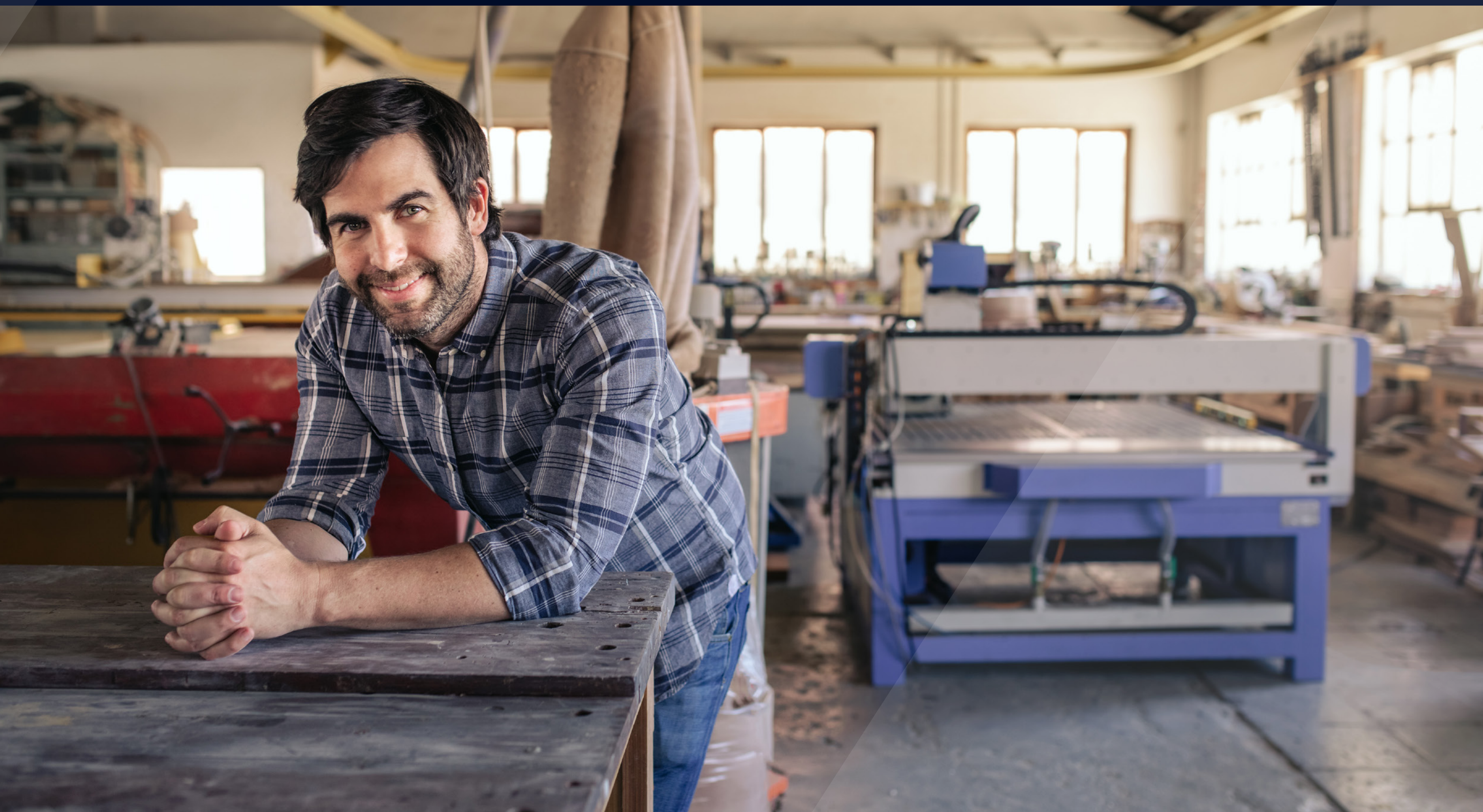


5 Types of Funding

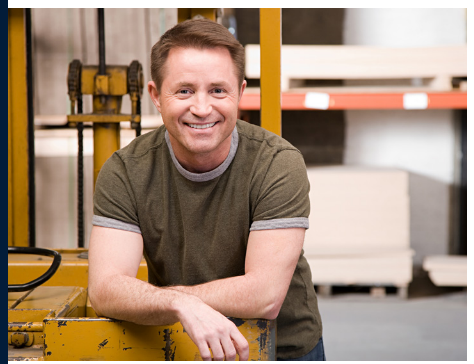
Business Funding

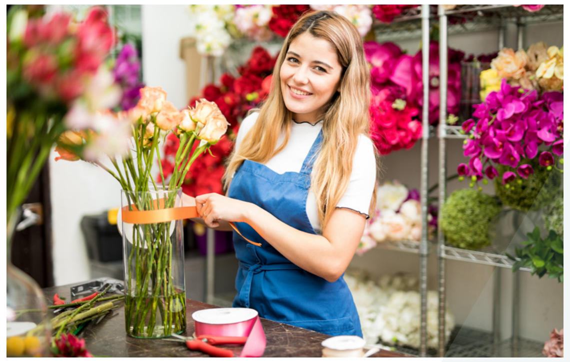
Sourcing the capital needed for your business can be a time consuming and often expensive endeavour.

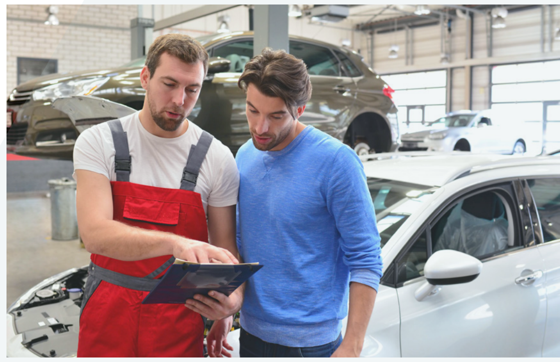
With so many different finance options available it can be difficult to narrow down which type of funding is likely to best suit your needs.

To provide you with a wider understanding, we've put together a brief guide to some of the most popular financing options available to UK businesses. These are by no means exhaustive but may offer an insight into some routes that you have not previously considered.

Committing to any type of commercial funding is a big decision and it's important that you have as much information as possible to make the right choices for your business. If you'd like to discuss any of the options available within this guide and what might work for you and your business, please get in touch.







Working Capital

The majority of businesses will require working capital assistance at some point within their lifecycle, whether this is for growth, or as a result of a change of supplier or customer terms, or perhaps an unexpected opportunity. Working capital ensures that businesses are able to pay the day-to-day expenses such as stock and wages, enabling you to continue to trade.

By regularly reviewing and analysing the working capital cycle, businesses can identify any potential gaps which might occur and put pressure on cashflow. Once these gaps appear, then you can look to plug these with borrowing. There are several methods of borrowing that can be used to support working capital requirements:

Overdrafts

The simplest form of working capital funding available, a pre-agreed limit with your bank which the business can draw upon when needed. Security will be required to obtain this funding and Overdrafts are typically reviewed every 12 months by the lender.

Overdrafts provide the most flexible form of finance for Working Capital, however, security requirements can limit the amount that can be accessed under an Overdraft and inevitably the cash available to your business.

Invoice Finance

Invoice Finance enables your business to unlock working capital tied up within outstanding invoices. Lenders take a charge over the book debts of a business and advance up to 90% of their value on the day the invoices are raised with the balance received once your customer has paid.

Invoice Finance can provide a greater level of funding than an overdraft as the structure provides greater comfort to lenders. Invoice Finance is particularly useful for businesses that are in a growth phase, as lenders use the outstanding invoices as security, they are comfortable in increasing the funding available in line with a growing debtor book.

There are several types of Invoice Finance, varying from a one-off draw down on a single invoice to a full Confidential Invoice Discounting Facility that provides funding against all invoices. There is also the option to include Credit Control and Bad Debt Protection within the facility if appropriate for both the lender and business.

Stock/Trade Finance

Trade Finance allows your business to extend credit terms over and above what is offered by your suppliers. Lenders will purchase stock for you from your suppliers and extend your payment terms to between 90-120 days, freeing up cash and potentially allowing your business to negotiate better terms or discounts as they are effectively cash buyers.

This is typically used when importing, however it can be also used for UK suppliers and provides importers, exporters, or both, guarantees of payment.

Merchant Cash Advance

This is available to businesses that take payment via a credit/debit card machine and allows you to borrow a lump sum that is repaid by the lender taking a small percentage of each transaction through the card machine until fully repaid.

Working Capital Loans

A traditional loan, either secured or unsecured that can be injected into the business and repaid over a variety of terms to suit your business needs.

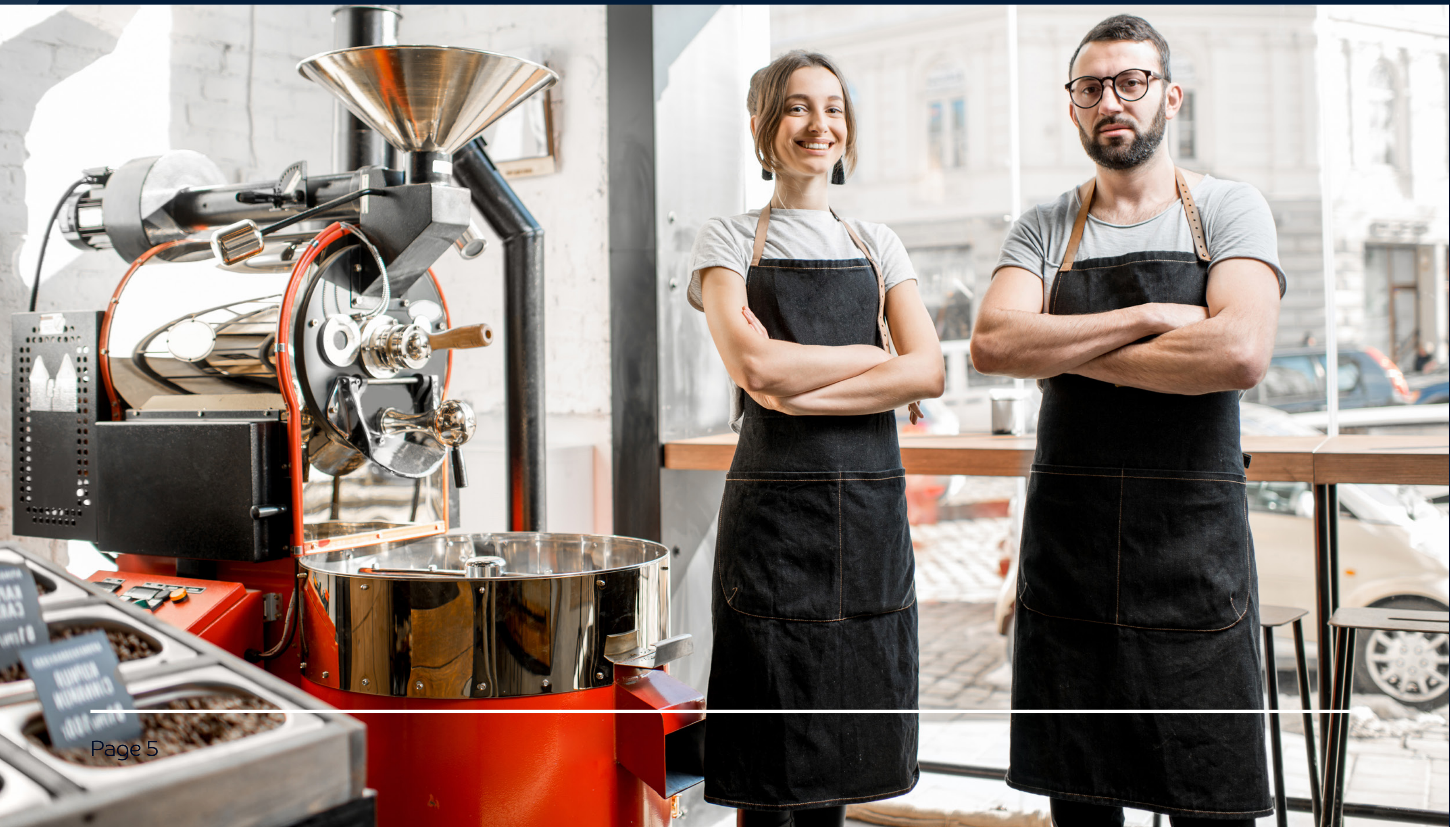
It is not unusual to utilise a combination of measures in order to manage working capital in the most efficient way.

Asset Finance

Purchasing new assets for a business is an essential part of growth, however sometimes cash flow can hold back the business from expanding as quickly as you would like.

Outlaying large upfront payments for new equipment or machinery can affect the day-to-day cash flow in the business but failing to invest could see your customer base begin to suffer.

Asset finance as a form of funding is specifically designed to help businesses in this scenario. Lenders are either able to purchase the asset on behalf of the business, allowing you to spread the cost of buying it into affordable monthly repayments, or they can simply lease the equipment to your business for as long as it is needed.



Common Forms of Asset Finance available:

Finance Lease

A finance lease works in a similar way to renting any equipment that is needed. The asset is typically leased for its useful life. This means that it is not owned at the end of the agreement but gives flexibility and means that your business will not be left with outdated equipment.

Operating Lease

An alternative to a finance lease is an operating lease. This is where the lender will effectively rent the machinery or equipment to your business.

The difference is that the rental is calculated not on the total cost of the equipment but on the difference between the initial cost and the estimated residual value of it at the end of the rental period. This can be a helpful way to enable the use of more expensive pieces of equipment for businesses where rentals based on the full value could make the cost prohibitive.

As with a finance lease, at the end of the agreement the equipment is either returned, sold to a third party by the lender or a new lease agreement is entered into.

Contract Hire

Contract hire is a form of operating lease and is most commonly used to access new vehicles. Payments are calculated based on the difference between the purchase value and the estimated residual value of the vehicle at the end of the agreement. This helps to keep payments lower and, as with operating leases, generally can enable a more expensive vehicle to be acquired.

Hirers do need to be mindful of the terms that will surround a contract hire agreement however, particularly penalties that relate to excess mileage as this can add additional costs to the agreement upon its conclusion.

Hire Purchase

Should you as a business owner prefer to own the asset at the end of the agreement, then a hire purchase facility may suit your circumstances better. Payments are similar to a finance lease and are based on repaying the full cost of the asset but at the end of the agreement - subject to an additional option to purchase fee - ownership will revert to you.

Transaction Funding

Transaction Funding can be required where a business is either acquiring another business, expanding into a new territory, or going through a change of ownership as part of succession planning or disposal.

Transactions that require funding can include Acquisitions, Disposals, Management Buy Outs or Management Buy Ins, amongst others. Each business and transaction are unique and for this reason there is not a one-size fits all approach to funding.

Lenders may look to utilise one or more of the funding options discussed throughout this guide to leverage the assets of the business to provide the capital required, or they may offer funding on a multiple of EBITDA basis, dependent on the particulars of the transaction.

Our wider Corporate Finance team are experts in advising businesses on the detailed aspects of these transactions and can provide a full range of financial and advisory services to assist you when looking to undertake any form of sale, acquisition, disposal or buy-in/out.

Property Finance

Buying or building a commercial or investment property is one of the largest investments that any business will make and there are three main ways you may choose to fund such transactions:

Commercial Mortgage

These can be used for purchasing a business property, either for the use of the business itself or as an investment opportunity on a buy-to-let basis. Refinancing a property already owned could also be considered to raise capital for other purposes.

A commercial mortgage is normally taken out over a predetermined period of time with any charges, interest rates and fees transparently outlined upfront, and this allows payments to be budgeted for effectively.

Rates can be either variable or fixed and it is also possible with some specialist lenders to have a mix of both. In certain sectors, such as Agriculture, rates can even be fixed for the whole term of the mortgage.

Commercial mortgages are available across most sectors and you will probably need to have a reasonable deposit available, although the exact level will depend upon several factors and to which lender you are talking.

Development Finance

Whether you are looking to take on a major new build project or to refurbish or redevelop an existing structure, development finance can help to fund your next investment with both up front capital and ongoing instalments.

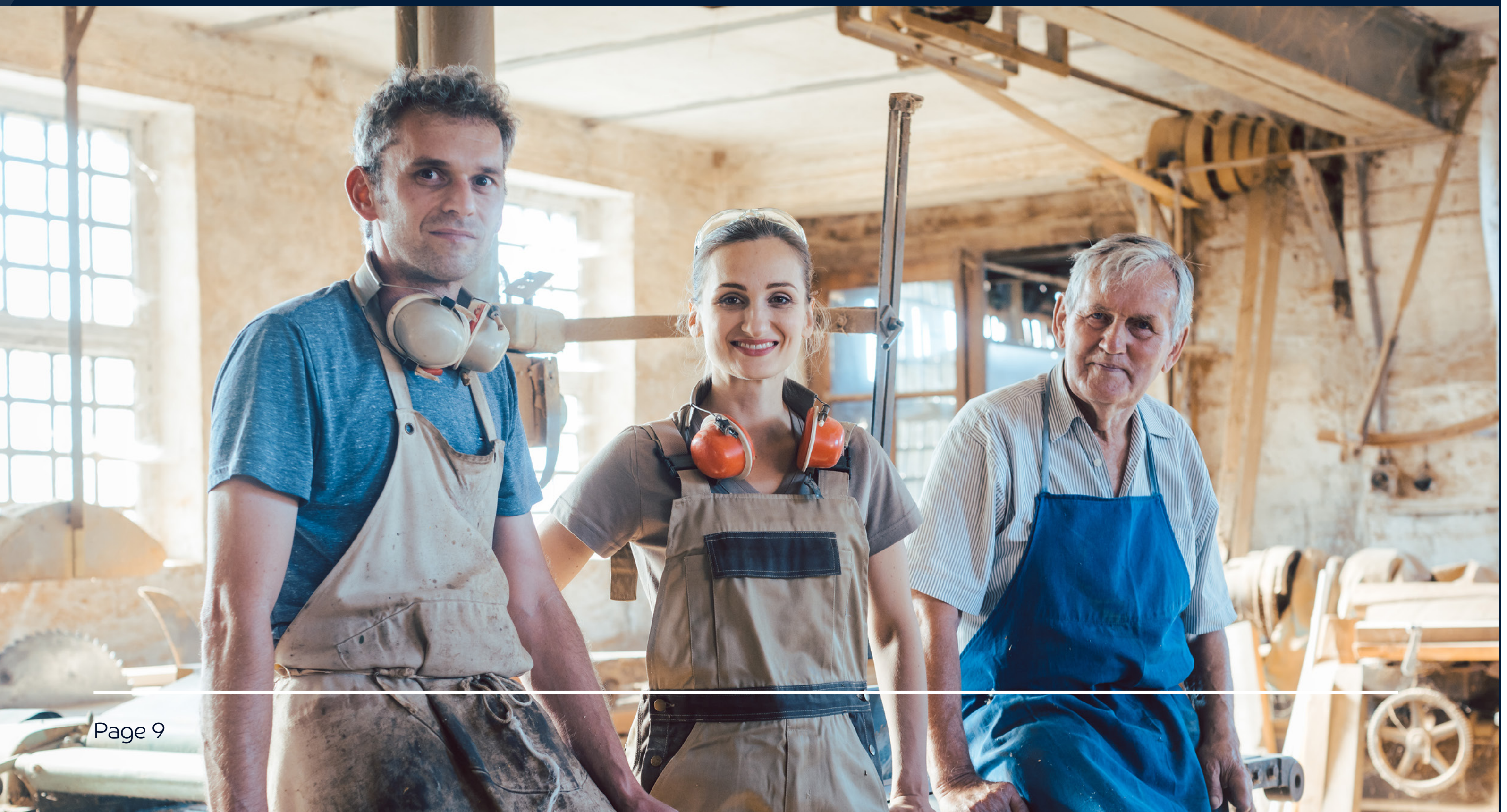
It is normally available for up to 24 months, with the amount borrowed repaid once the project has been completed and the property or properties sold on.

If the property is being retained, a standard commercial mortgage can be taken at the end of the development to clear the funding and proceed with a more affordable long-term solution.

Bridging Loans

This type of funding is ideal where you may need to raise funds quickly for a relatively short period of time. This could enable funds to be raised to help plug a gap with a renovation, or whilst waiting for a more traditional mortgage to be approved. It could also allow a new property to be acquired while waiting to sell an existing one.

This area of secured funding has grown massively over recent years with many providers in the space. Rates are more expensive, but this should not be seen as longer term funding.



Re-banking and Re-financing

Working with a proactive and supportive banking partner is vital to ensure that you have the most appropriate bank accounts, systems and facilities in place for your business' immediate and future requirements.

As business models and strategies change for example, overseas trading or sector diversification, then it is important to ensure that your bank can support your business through these changes. If, for example, your existing bank has no overseas presence or a lack of appetite within a new sector, then a change of bank may be required.

From time to time, banks also amend their credit appetite, pricing and policy, which may result in them no longer being able to support your business, again requiring you to make alternative banking arrangements. You may also choose to review your banking relationship to ensure that you have the most suitable or cost-effective offering within the current marketplace.

Our Commercial Funding team has relationships across the banking spectrum, both high street and alternative, so we can work with you to undertake a full review of your banking requirements. We leverage these relationships and, via a managed tender process, can assist you to identify the most suitable banking partner.

For further information about commercial funding and to discuss the best options for your business, please get in touch:

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