









# GUIDE TO BUSINESS FINANCE & BUSINESS FUNDING



### M3 Corporate Finance

M3 Corporate Finance is an independent corporate finance house focused exclusively on mid-market transactions.

M3 offers specialist corporate finance advice to shareholders and managers / directors of companies and private equity houses concerning:

-  Exit strategy and company sales
-  Management buy outs
-  Management buy ins
-  Corporate acquisitions
-  Development & replacement capital
-  Corporate divestments and restructuring
-  Recapitalisation equity release ('cash out')
-  Vendor roll-over

Our services are always led by an owner partner guaranteeing our commitment to your deal.

### M3 Corporate Finance – our Owner Partners



Matt Oliver  
matt@m3cf.co.uk

Bristol Office:

130 Aztec, Aztec West  
Almondsbury  
Bristol  
BS32 4UB



Gary Hyem  
gary@m3cf.co.uk

Birmingham Office:

Cornwall Buildings  
45-51 Newhall Street  
Birmingham  
B3 3QR

Tel: 0845 270 0345

Further information can be found at the back of this guide.










## 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 in the current economic climate is hard. In many cases banks are withdrawing established credit lines and, as a result, businesses are short on working capital and the finance required for continued growth.

In recent years, the availability of cheap debt finance has been attractive, but is now set to become increasingly expensive to companies. Both established businesses and relatively new entrants can find raising finance difficult. This guide looks at the different types of finance available and the types of businesses and applications where one type of funding is likely to be the preferred option.

Some of the more common sources of finance are:

-  Overdraft
-  Loan
-  Asset finance - hire purchase and leasing
-  Invoice discounting and factoring
-  Commercial mortgages
-  Assistance from Government-backed schemes and from regional authorities
-  Venture capital and private equity
-  Angel investment
-  Friends and family investment

## CONTENTS

THE FUNDING CHALLENGE .....	5
THE OPTIONS .....	7
<b>DEBT FINANCE</b> .....	<b>8</b>
<i>Overdrafts</i> .....	8
<i>Term loans</i> .....	8
<i>Asset based lending</i> .....	9
<i>Invoice discounting and factoring</i> .....	9
<i>Trade finance</i> .....	10
<i>Raising finance secured against fixed assets</i> .....	10
<i>Commercial mortgages</i> .....	10
EQUITY FINANCE .....	12
<i>Venture capital and private equity</i> .....	12
<i>Angel investment ("Business Angels")</i> .....	12
<i>Friends and family</i> .....	13
CONCLUSION .....	15
WHY USE M3? .....	16
CONTACT US .....	17





## THE FUNDING CHALLENGE

Raising capital is an integral part of the business planning process. Often a complex and lengthy process, the goal is to ensure that your business is operating efficiently and is in the best financial position to raise finance to meet your needs.

The rules of funding have changed radically since the credit crunch erupted on the global economic scene. The old paradigm that ruled the roost during the boom years could be summed up with the two words “debt financed”. For larger companies, debt was perceived as the way to maximise returns to a small group of investors, while smaller and early stage companies preferred it as a way to keep the lion’s share of their business to themselves and ensure that they remained in control.

Those days are behind us, at least for the time being. While the majority of businesses are still financed with debt, other funding options need to 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.

The broad types of capital available can be categorised:

### *Debt financing options*

-  Overdrafts
-  Term or cashflow loans – both secured and unsecured
-  Asset based lending
-  Invoice discounting and factoring
-  Commercial mortgages

### *Equity financing options*

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

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 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 both secured and unsecured.

Business owners typically retain control of their businesses and debt financing is perceived to be less complicated to obtain. However, in the current environment, banks have recently made this form of funding much more expensive and the business owner may have to provide security over both the company's and personal assets.

### *Overdrafts*

Overdrafts are typically advanced by the business's existing bankers to provide short term cashflow needs of the business. They are meant to be short term – 12 months maximum 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 indebtedness varying up to the maximum, but also the business's banking arrangements being in credit at certain times during the period.

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

An overdraft of any size 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 may be required if the levels of assets do not provide the funder with sufficient security for the amount of the advance.

### *Term loans*

A term loan is a loan from a bank or other financial institution for a specific amount that has a specified repayment schedule and a fixed or floating interest rate. Term loans almost always mature between one and ten years.

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

Security will be taken where available – via debentures or against specific assets. Again, in the case of smaller businesses support from the business owners 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. The loan may greatly exceed the levels of security available. Such loans are often referred to as cashflow loans.

The Enterprise Finance Guarantee scheme is a specific type of term loan. The UK Government launched the Enterprise Finance Guarantee (EFG) scheme to help small businesses struggling with finances. 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. The EFG provides loans up to £1 million for businesses with a turnover of up to £25 million.

#### *Asset based lending*

Asset based lending or ABL is the all encompassing term that describes borrowing against your company's assets. These assets include the sales ledger, property, plant, machinery and stock. As a rule, ABL generally releases more available funding than traditional facilities such as an overdraft allows.

#### *Invoice discounting and factoring*

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

##### *Factoring*

Factoring companies, or factors, will buy your company's debts at a discounted rate and then collect it themselves. They will then pay a fixed proportion of the outstanding invoice within a pre-arranged time scale.

##### *Invoice discounting*

Invoice discounting has many similarities 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.

Funding through invoice discounting or factoring will grow with the business as more invoices are sent out, the lender will be able to release more funds, providing the business with more working capital – bank loans do not have this level of flexibility. Invoice discounting facilities do reduce, however, when sales reduce.

### *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. However, this has become harder to obtain since advent of credit crunch.

### *Raising finance secured against fixed assets*

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

Asset based lending advance monies secured on existing or new plant and machinery and vehicles.

An alternative is leasing. Leasing the asset gives you access to the asset without having to pay for it outright. Leasing is basically a rental agreement giving the business (the lessee) the right to use an asset owned by the lessor (finance company) for a fixed period of time in return for regular payments (rental payments). You can 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 your needs.

### *Commercial mortgages*

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



## EQUITY FINANCE

Money is advanced from financial institutions and individuals. Terms and risks and rewards 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.

Equity financing involves the provider of the funding taking a share of the business and hence sharing in the risks and rewards of the business moving forward. Equity investors usually get 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 potential return than from secure investments.

### *Venture capital and 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 a 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 VCs will sometimes invest in start ups where there is demonstrable high growth potential.

VCs can bring a wealth of expertise to a business as well as management and financial skills and access to markets. 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.


Venture capital typically comes from institutional investors and wealthy individuals and is pooled together by dedicated investment firms.

Larger sums of money typically come from private equity houses and smaller sums from venture capitalists.

### *Angel investment ("Business Angels")*

Angel investment is where an individual provides capital in return for a stake in the company.

Angel investment is typically between £50,000 and £500,000. The investor will likely also bring valuable expertise and have goals closely aligned to those of the business owner.



### *Friends and family*

Investment in the business 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

The simple fact is that funding lines, despite claims to the contrary from some circles, are extremely hard to come by and increasingly expensive for the business.

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



## WHY USE M3?

Your adviser needs to be an experienced corporate finance adviser with wide experience in securing different types of finance for different businesses with a proven record.

### **M3 differentiators**

#### ***So what...?***

Owner  
managed  
business



Its more personal



We understand deals as Principal & Adviser



Entrepreneurial in outlook

Our people



Senior partner – led advice throughout the deal



Experienced team who know how to acquire & sell  
businesses & understand the dynamics of transactions



Mix of backgrounds from accountancy, banking,  
private equity & industry

Track record



Regular contact with funders



Activity creates experience



Vast pool of accessible knowledge

Creative &  
innovative



Creative deal structures that work for our clients



We get the job done

Independent  
& focused



This is all we do – no conflicts of interest



Team hungry to deliver



We focus on our deals

Excellence &  
commitment



We strive for excellence in our work



Strong research capabilities



Committed to client satisfaction, standards & performance

## CONTACT US

For more information and / or a confidential discussion please contact:

### Bristol Office:

130 Aztec, Aztec West  
Almondsbury  
Bristol  
BS32 4UB

### Birmingham Office:

Cornwall Buildings  
45-51 Newhall Street  
Birmingham  
B3 3QR


Tel: 0845 270 0345  
[www.m3cf.co.uk](http://www.m3cf.co.uk)


### M3 Corporate Finance – our Owner Partners

Gary Hyem



[gary@m3cf.co.uk](mailto:gary@m3cf.co.uk)


 Gary originally trained as a Chartered Accountant with two periods working in industry.


 Having spent the last 16 years in Lead Advisory and Venture Capital markets, including five years as a Venture Capitalist, Gary has valuable experience in raising finance for businesses, working with management teams on MBO's and MBI's, as well as buying and selling companies from £1m to £100m+ and in numerous sectors both as an advisor and a principal.


Matt Oliver




[matt@m3cf.co.uk](mailto:matt@m3cf.co.uk)

 Matt provides lead advisory support to corporate clients & management teams on the complete range of corporate finance activities.

 He has developed particular expertise advising management on both buy out and buy in transactions. In previous roles he has advised on larger international transactions & helped secure growth equity finance, both as advisor and as part of a management team.

 In addition, Matt held a number of senior financial positions globally.

 Matt qualified as a chartered accountant with Arthur Andersen.