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An SME's guide to Growth Finance

Ambitious growing businesses need to learn about their financial options. With innovative lenders changing the landscape for SME finance, there are more choices than ever before.

Free access to the full version of *A Comprehensive Guide to Growth Finance* at **Growthfinance.co**

Businesses have choices

Although the UK is home to many start-ups, we tend to struggle growing and scaling our businesses.

GUY TOLHURST

Managing Director, Intelligent Partnership

powered by intelligent partnership

The past ten years have seen a surge in finance providers servicing the needs of SMEs, necessary and welcome innovations and interventions post financial crisis and in its wake a community of growth finance providers has emerged.

With them, they bring an array of financing to support growing businesses, including options such as peer-to-peer lending, invoice financing and venture debt. More than 50 new banks have also been given licences in the UK since 2008, with many of these new market entrants focusing their efforts on making things simpler, better and quicker for SMEs.

But education hasn't kept pace with innovation. Even though SMEs have much more choice to help realise their ambitions, relatively few are aware of everything that's available, from who, and the differences between them. Too many still believe that their business isn't suited for finance, and a significant majority shun finance due to fear of rejection. But in reality, many of the new growth finance providers are unencumbered by the legacy issues that have held back established lenders from supporting SMEs. Growth finance is now very attainable and approval rates are high.

This short guide is a starting point and an excerpt from our new and upcoming 68-page **Guide to Growth Finance.** In this supplement you'll find a breakdown and comparison of the main types of growth finance, expert commentary from leading growth finance providers, and advice and tips if you think your business could benefit from borrowing. I hope you enjoy the read.

Understand the options for your business

LOANS & OVERDRAFTS A wide range of high-street banks and new challengers provide loans and overdrafts to businesses of all shapes and sizes.

ASSET-BASED LENDING Businesses with large assets can free up cash by raising finance against them, using the cash to fuel their future growth.

PEER TO PEER LENDING Online platforms link multiple lenders to businesses that need finance, often providing loans quickly when other lenders can't due to legacy issues.

VENTURE DEBT This hybrid product allows fast-growth start-ups to borrow in between equity rounds, helping them to increase their valuation further down the road.

LEASING & HIRE PURCHASE Leasing companies allow SMEs to rent assets for an agreed period of time, saving a business from having to buy them outright.

DIRECT LENDING Non-bank lenders often offer finance to SMEs directly, helping to diversify the market and provide growing businesses with more options.

INVOICE FINANCE & FACTORING Specialist lenders can free up cash flow by ensuring that a business gets paid its outstanding invoices in a timely fashion.

EXPORT FINANCE For companies hoping to sell their products and services abroad, banks and government offer a wide range of support.

First steps: things to consider

The things a growing business should focus on as it weights up growth finance.

How does an SME arrange growth finance?

1 Do it yourself

Approach a growth finance provider and start a discussion about your business's needs.

2 Hire a professional

Hire a part-time or full-time finance director or corporate financier to guide the company's financial strategy.

3 Join a network

Join one of the UK's business associations and benefit from their advice, resources and networking.

IS DEBT OR EQUITY BEST?

First things first. If your business needs external capital to grow, then make sure to decide whether debt or equity funding is best.

Debt includes products like loans and overdrafts, with which a business borrows money from a lender and then pays it back in regular instalments with interest.

Equity involves selling shares in a business to investors. Whether to choose one, or both, depends on the stage that a company is at, the type of business it is, what it plans to use the proceeds for, as well as its mission and growth plan.

There are advantages to both. Funding a business with debt alone means that its owners can hold on to all of the company's shares and shape its future without having to answer to new shareholders. On the other hand, if an owner is willing to sell shares in their business, they can free up capital for long-term investment. And especially in the early stages, it may allow a growing business to find experienced, hands-on investors who will use their knowledge and experience to help it grow more successfully.

GRANTS

If your business is eligible for a grant then consider applying for one. After all, it's better to fund your business with money that you don't have to pay back.

There are many different grant schemes available to growing businesses, from many different sources, with the majority of them being publicly-funded. Some are focussed on helping businesses at a specific stage in their growth journey. There are also grants designed to stimulate research and development, while others are geared towards certain regions of the country.

What information does an SME need to provide?

Lenders want to know that a business will be able to pay them back. They usually require documentation that shows the business is generating the cash it needs to meet repayments for a loan. At a minimum, this usually includes:

• The amount a business wants to borrow	• Information about all the business debts
• Details on how the business will use the loan	• Annual turnover (if an established business)
• Details about the company's business plan	• The company's net profit (if an established business)
• Personal information about the directors	• The forecasted annual turnover (if a start-up)

PERSONAL GUARANTEES

For loans to early-stage businesses, lenders often require a personal guarantee from the business owner.

This means that if the business defaults on the loan, the director is personally liable to repay the amount owed. For obvious reasons, this is something to consider carefully before taking out a loan.

Terms will vary on a case-by-case basis, so make sure that you've established exactly what you are liable for. It might be worth considering getting legal advice before agreeing the loan.

The good news is that there are ways to reduce personal risk. The size or duration of the guarantee can be negotiated, and sometimes personal guarantees can be capped at an agreed amount.

For example, elements of the guarantee can often be negotiated if the bank is comfortable that an entrepreneur is also invested in the business - perhaps by part-funding the company through their own savings.

Getting your house in order

What sorts of things will a growth finance provider want to know about your business?

1. HOW MUCH MONEY DO YOU NEED?

- Have a precise figure worked out
- Make it clear exactly how the proceeds will be spent
- Explain how the spending will drive future growth

2. WHAT IS THE GROWTH STRATEGY?

- Help a lender understand where you want the business to be in the future
- Create financial projections, incl. sales and cash flow forecasts, as well as budget
- Do you plan to borrow again in the future?
- Will you sell equity at some point?

3. HOW IS THE BUSINESS PERFORMING?

- Prepare detailed financials from previous years
- Include information such as spending, cash flow, revenue and profit
- Help lenders to understand your journey so far

4. HOW DOES THE BUSINESS DIFFER FROM ITS COMPETITORS?

- What does your business do compared to others that offer similar things?
- How will you make sure that you compete effectively with them?

5. WHO ARE THE CUSTOMERS?

- Tell potential lenders about your customers and how you provide them
- How will the market grow or develop in the future?
- How will your business keep offering them products or services that they want?

6. WHO ARE THE KEY PEOPLE?

- What's your background and what is your role in the business?
- What about the other senior people?
- How will you be hiring as the business grows?

7. ARE THERE ANY HURDLES HEAD?

- Be upfront about any areas of vulnerability
- Think about how your customers' behaviour might change in the future, whether your costs could increase, or whether your market could become more competitive

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THOUGHT LEADERSHIP: INVOICE FINANCE

Taking your business to the next level by tackling financial challenges

JOSH LEVY, CEO, Ultimate Finance

Looking back, most business owners would say that they have been plagued by suppliers making late payments. It has long been an issue for their cashflow and one that doesn't look like it is going to go away anytime soon.

Research by BACs revealed that it costs SMEs 6.7bn just to collect the money owed to them from overdue invoices. In 2017, when the government introduced its 'Duty to Report' legislation with the explicit aim of tackling late payments, the figure was an already alarming 2.6bn. On top of this, government research highlights a shocking trend, as 82 per cent of businesses admit that not getting paid at all for their work is a significant issue. Clearly, current regulation isn't working.

Regulation with teeth

Change is coming though – it was announced in June that, for the first time, the Small Business Commissioner could have the power to fine large corporations for failing to pay smaller suppliers. Entire company boards may be held accountable too, rather than just the finance team who may have their hands tied by execs in certain situations.

It's a welcome initiative but, it would be na ve to think the issue will disappear completely overnight. This is why a solution which relieves the stress of slow payments, so that a business's growth is not hampered, is often a necessity.

Invoice Finance

This is where Invoice Finance enters the fray, providing a way to release the money tied up in a company's sales ledger. Rather than waiting for customers to pay their balance, it helps businesses control cashflow and accelerate planned growth. Employees and suppliers can always be paid on time and there is no need to hold back on scaling-up and reinvesting in operations.

It's quick and easy to set-up and within 24 hours the business will be advanced a significant percentage of the money they are owed (often up to 90 per cent). So, instead of having to plan around a gap in finances, businesses will gain access to much needed cash almost instantly.

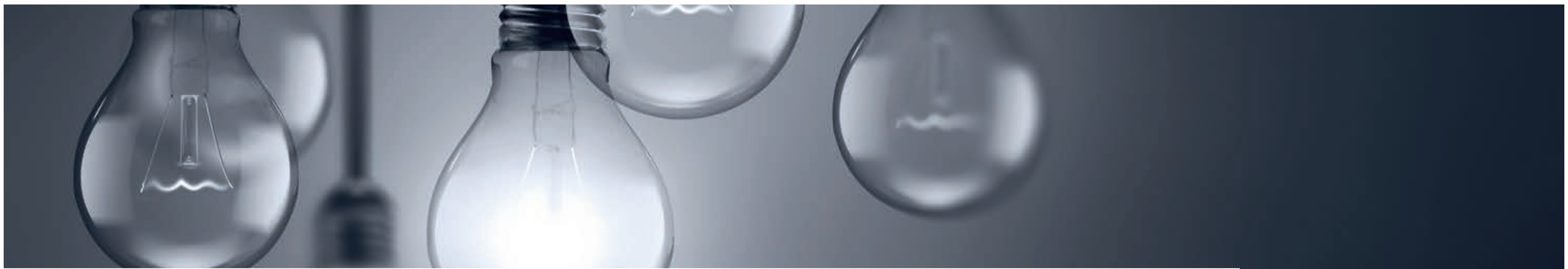
At Ultimate Finance, we don't stop at simply providing funding. It can take a considerable amount of time pursuing outstanding payments, so as part of this service, we also chase debtors on our clients' behalf to make sure we're taking every step possible to remove the burden. That way, SME leaders can retain control over their cashflow while focusing on building and progressing the business.

HOW THE KEY TYPES OF GROWTH FINANCE COMPARE

The data in this table are drawn together from the websites and published materials of the industry's leading lenders. Numbers are representative for typical loans and SMEs and are for illustrative purposes only.

	LOANS & OVERDRAFTS	P2P BUSINESS LOANS	LEASING & HIRE PURCHASE	INVOICE FINANCE & FACTORING	ASSET BASED LENDING	VENTURE DEBT	DIRECT LENDING	EXPORT FINANCE
Typical deal size	£10,000+	£10,000-£500,000 (more if secured)	Depends on the asset being leased	£50,000	< 1m	£1m-£5m	£2m-£15m	up to £5m
Typical interest rate	5%-10%	5%-10% (often lower than bank loans)	5%-10%	3% fee	5%-10%	10%-15%	5%-10%	5%-10%
Typical term	6 months - 5 years	6 months - 5 years	Short or long-term	50 days	<10 years	3-5 years	5 years	2+ years
Secured or unsecured?	Either (but affects interest rate & loan maximum)	Either (but affects interest rate & loan maximum)	Secured	Raised against invoices	Secured	Either	Usually secured	Benefits from up to 85% UKEF guarantee
Best suited for long-term or working capital?	Loans = long-term Overdrafts= working capital	Long-term	Either	Working capital	Long-term	Long-term	Long-term	Long-term
What stage does your business need to be?	Established	Established	Any	Established (also needs invoices)	Established	Early	Established	Established (also needs export contracts)
What is the min business turnover?	£1m	£50,000	Any	£100,000 per year (less with some newer providers)	Yes	Often provided before company is generating profit	£10m	Yes
Who provides it?	Banks, challenger banks, specialists, government	Online platforms	Specialists	Banks, challenger banks, online platforms, specialists	Banks, challenger banks, online platforms, specialists	Specialists	Direct lending funds	UKEF alongside an approved bank
Does it came with support for business owners?	Rarely	Rarely	Rarely	Can involve management of credit controls	Rarely	Yes if investor is hands-on	Rarely	Rarely
Combines well with equity funding?	Yes	Yes	Yes	Yes	Yes	Yes, but often involves purchase options so can affect future raises	Yes	Yes

THOUGHT LEADERSHIP: INNOVATION LOANS



Supporting growth through innovation

Innovations need different types of funding support depending on how close they are to market.

NIGEL WALKER, Director, Innovate UK

The world is changing rapidly, in terms of technology, politics and societal trends. More than ever, the UK's ability to thrive in the face of change depends on ideas, with innovative companies driving a productive, growing economy and solving the challenges we face as a society.

Innovation is risky, though, and the lack of funding available to innovative businesses at the right time is a barrier to their productivity and growth. To support these risk takers, Innovate UK is running a pilot programme of 7 loan competitions over 3 years to the end of 2020. A total of 50 million has already been committed to 73 highly innovative small or medium-sized enterprises (SMEs) and a further 25 million is available in 2 further competitions.

We are working to broaden the range of innovation finance support available to businesses, so they can access funding at all stages of innovation. Innovation loans are, we believe, most useful for innovations near to market, whereas grants are more suitable for earlier stage, riskier innovations.

Through the pilot, we are offering innovation loans to UK SMEs that want to scale up and grow by developing new or improved products, processes or services. They can be used for late-stage research and development projects that have not yet reached the point of commercialisation.

Over the last 12 years Innovate UK has invested over 2.2 billion in innovation. This has spanned more than 11,000 projects that have generated up to 16 billion in Gross Value Added for the UK economy and 70,000 jobs.

We have delivered these results by supporting businesses to develop and commercialise ideas drawing on their own know-how or research, from the UK's world-leading research base, and through collaboration with partners.

Our new strategy takes more of an investment-driven approach to innovation. It focuses much more closely on creating the conditions for private investment in R&D, on creating an enabling environment by championing and assisting industry to innovate, on nurturing the sectors and technologies that will transform the UK, and on encouraging innovation in all businesses with the potential to grow and scale, right across the country.

Innovation loans are an example of how we are moving to make the most of public funding, ensuring maximum impact as an investor in business innovation.

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