BizBritain

BizBritain
Funding Guide

bizbritain.com

Contents

Foreword

During the past 5 years, the landscape around raising finance for SMEs has shifted. Where there was once a hopeless abyss for all but the most established companies, there is now a clear and bright path to a whole host of new options for smaller UK businesses.

Since BizBritain was founded in 2012, the commercial finance industry has moved on considerably, and has produced a multitude of new and exciting ways in which businesses can acquire the funding they need. But as much as things have moved on, I often find there is a general lack of awareness and understanding amongst business owners when it comes to the options that are currently available to them.

The biggest challenge now facing business owners looking to acquire financing is not raising the funds; it's their lack of knowledge around what's available and what the best options are for their business.

At BizBritain, our objective is to guide you through the often-scary journey of raising finance. Starting by helping you identify the most suitable options for your circumstances, working with you to build a case which can be presented to funding providers in order to get you the best possible deal, through to seeing the money deposited in your bank account.

In this **free guide** we hope to increase your understanding of the options that could be open to you and give you some insight into how to move forward with raising finance.

I hope you find it useful, and I wish you the greatest success in your business journey.

Matt Gubba,
CEO & Founder, BizBritain

BizBritain

Introduction

Nurturing your business from its inception, through to growing then scaling it is no simple task. It can be a winding, treacherous road filled with obstacles and challenges which need to be overcome. Ensuring your business is properly financed is not only essential in mitigating the risk of such challenges, but also in allowing your businesses the opportunity to reach its long-term strategic goals.

At some point most businesses will require some form of external financing beyond what the owners are able to invest themselves, and what can be retained in profits. Whether it's to fund the purchase of fixed assets, increase headcount, move to larger premises, buy a large quantity of stock, or simply to bridge the gap between invoicing customers and getting paid; there are countless reasons why finance is likely to be required.

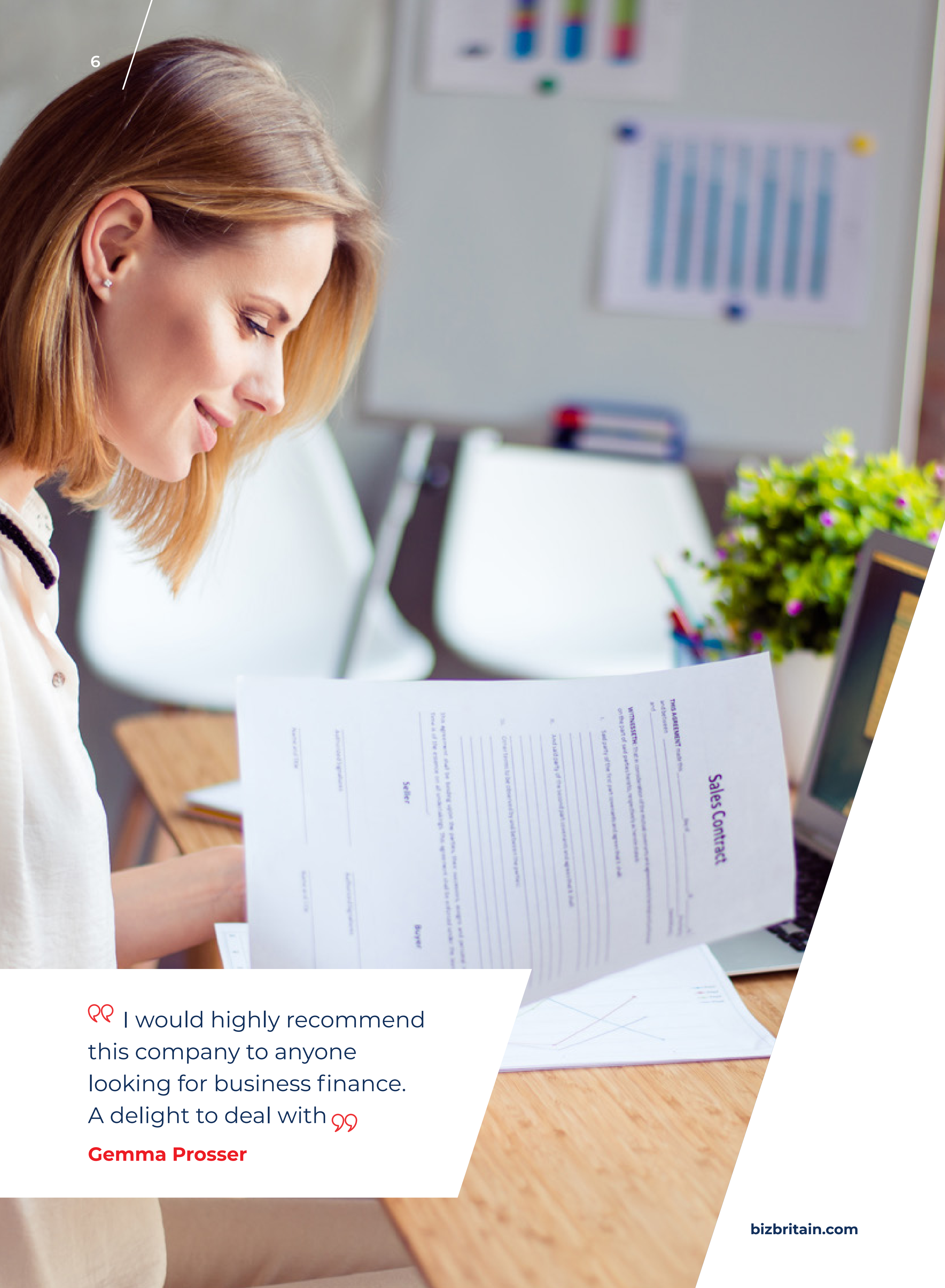
The purpose of this guide is to help you understand not only when and why finance may be required by your business, but also to help you understand what the best type of finance is for your own unique circumstances. It provides invaluable guidance which will help you whether you're a new entrepreneur or the owner of an established, growing business.

Inside you will learn the key differences between raising equity investment and raising non-dilutive finance, as well gain an understanding of the various types of finance now available to businesses. You will also learn the steps you can take to prepare your business and maximise your chances of a successful finance application.

Using the information in this guide you can rest assured you'll be on solid footing to guide your business towards obtaining the finance you need.

Dealing with BizBritian was easy and efficient, the whole experience was quick and once accepted the funds came through really quickly. I would highly recommend them.

Steven Rice



> I would highly recommend this company to anyone looking for business finance. A delight to deal with

Gemma Prosser

Equity vs Debt Funding

Broadly speaking there are two overarching categories of external financing which can be sought by SMEs; either money is raised by borrowing from a lender *(known as debt funding)*, **or by selling a percentage of the business to an investor in exchange for capital** *(known as equity funding)*.

Both types of funding have their pros and cons, and the best option for your business will largely depend on your own unique circumstances. It is important to understand which of these two types of funding is most suited to your circumstances before you set out to try and raise anything. Failure to do so will only waste time and energy for both you and the funder.

Equity Funding Key Points

- **Dilutive:** reduces your ownership stake in the business
- The investor inputs their capital because they are betting on the shares they buy significantly increasing in value over time.
- The cost of capital to you is the difference between what you sell the shares for now, and what they are worth in the future. In the case of a high growth company selling shares at an early stage, this cost can end up being very significant.

Debt Funding Key Points

- **Non-dilutive:** you keep 100% of your existing ownership
- The lender inputs their capital because they are promised the money back plus an agreed interest rate.
- The cost of capital to you is only the agreed interest rate payable.

In most cases to successfully obtain debt funding your business will need to have a track revenue of proven revenues and profits. If your business is still pre-revenue or pre-profit but has a high potential for growth (as is often the case for SaaS and tech start-ups), pursuing the equity funding route is likely to be the most feasible option.

For business owners whom retaining as much equity as possible is important, debt finance is likely to be the preferred choice, assuming they have the trading history to support it.

Understanding Your Options

In the current marketplace there are a wide range of options available from an array of different providers. The challenge for SMEs is understanding which option, or which blend of options would provide the best solution to their funding needs.

The question of which type of financing should be used is far more complicated than simply “Should I raise investment or get a business loan”. At BizBritain, we frequently provide our clients with solutions they hadn’t known existed prior to speaking with us.

Here we’ve laid out some of the most common financing options currently available to SMEs.

Unsecured business loans

These are the most common form of debt financing, and likely what first comes to mind for many businesses when they think about funding via debt. Unsecured loans are an option for businesses who don’t own many tangible assets *(such as property, equipment, vehicles etc)* but can evidence a profitable trading history. This is because they don’t require any assets to be put up as collateral *(hence unsecured).*

Typical providers will offer unsecured loans over terms of 1 – 5 years for amounts under £250,000, with an interest rate calculated against the risk profile of the business looking to take out the loan. In many cases, particularly for smaller businesses, the lender may ask for a director’s personal guarantee.

KEY POINTS TO REMEMBER

- **Smaller loans between £1,000 - £250,000**
- **Typically offered on a 1-5 year term**
- **Not secured against the business’s assets. Mainly judged on affordability of repayments**
- **Normally require trading history**
- **May require directors to provide a personal guarantee**

Secured business loans

This is where an amount of money is lent to the business and is secured against its assets. Secured loans generally carry a lower interest rate due to the reduced risk for the lender and are available for larger amounts going into the millions.

Secured loans are an option for businesses that don't have enough trading history or profitability to support an unsecured loan but have enough value in their assets to cover the value of they are looking to borrow.

KEY POINTS TO REMEMBER

- **Available for large amounts**
- **Lower interest rates due to less risk for the lender**
- **Secured against assets,**
  e.g. commercial property, equipment
- **The more assets the business has, the more can potentially be borrowed**
- **Less likely to need directors' personal guarantees**

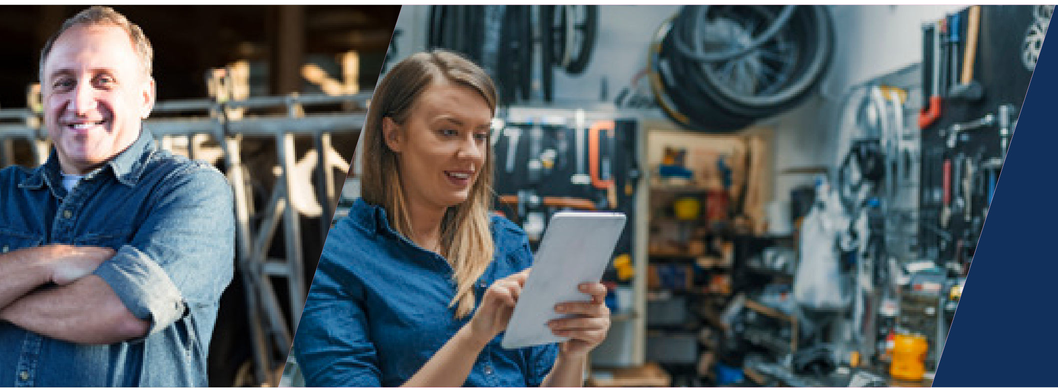
Merchant cash advance

A merchant cash advance is a relatively new way of raising finance, which is designed to suit businesses that have a high volume of card transactions being processed through a card terminal. They are ideal for businesses such as restaurants, cafes, bars, and shops who take most of their sales via card payment. Funding via a merchant cash advance can be received very quickly.

The lending is secured against the card transactions going through your terminal and repayments are made as a percentage of revenue. Generally, a business will be able to borrow the equivalent of 1 months' worth of the average sales value processed through their card terminal.

KEY POINTS TO REMEMBER

- **Normally able to borrow 1 months' card revenue**
- **Repayments are taken as a percentage of monthly sales**
- **Funds available quickly**
- **Designed for businesses that take payment via card terminal**



"Excellent support from the team. Thank you!"

Bonny John

Business credit cards

Just like a personal credit card, a business credit card can be used to make purchases via card terminals and pay bills online. They normally carry a much higher interest rate than loans and are intended for short term revolving use. They can be used as a way of managing staff expenses or spreading the cost of purchases over a few months.

You will be given a credit limit based on the credit profile of your business, which represents the most you can have outstanding at any point in time. Most credit card providers will offer an interest free period *(normally 45 days)* during which you pay no interest on your outstanding balance. So, if you spend and pay off the balance within this time you don't pay any interest. After that, you only pay interest on your outstanding balance.

KEY POINTS TO REMEMBER

- **Intended for short term revolving use**
- **Offer an interest free period after each transaction**
- **High interest rate if you don't pay off the balance**
- **Set credit limit based on your creditworthiness**
- **You only pay interest on what's outstanding**

> "Very decent service off the team thanks for sorting everything for me."

Andrew Duggan

Short term cashflow loans

Sometimes businesses can be faced with unforeseen circumstances that require a money to be obtained at very short notice for a short period of time. This could be something like a large unexpected bill being received, or a key customer failing to pay a big invoice on time.

Short term loans are usually unsecured, very quick to arrange *(often same day decision and funds in 24 hours)*, and you can normally expect to borrow a maximum of 1 month's average turnover. They tend to be offered on a term of up to 1 year. They will carry a higher interest rate than other business loans, so should only be used as a short-term or revolving credit facility which is paid off quickly.

KEY POINTS TO REMEMBER

- Designed to fill a short-term cash-flow gap
- Very fast to arrange, but high interest rate in return
- Terms from a month to 1 year
- Usually unsecured
- May require a personal guarantee from directors

Invoice discounting & factoring

These are both very similar products, so we have included them under one heading. In both cases the finance is secured against the business's debtors, and you can potentially borrow up to 90% of your outstanding invoices. The key difference between the two is that with invoice discounting you remain responsible for collecting payments, but with factoring the provider takes full control of your sales ledger, then your invoices are paid directly to them.

This kind of finance is suited to those who deal with customers on credit terms, and don't have the cash-flow to bridge the time gap between making the sale and collecting payment.

KEY POINTS TO REMEMBER

- Secured against your outstanding invoices
- Can typically borrow up to 90% of your debtor book
- Provides access cash as soon as an invoice is raised
- Ideal for businesses who sell on credit

Asset finance

If your business is looking to purchase a new fixed asset such as vehicles, equipment, or machinery, then asset finance could be your best option. It is a broad category that comes in several different forms, and you can find asset finance for almost anything. The most common types of asset finance used to purchase new assets and equipment are as follows:

Hire purchase: This is where you purchase an asset and spread the cost over time by paying in instalments. The asset appears on your balance sheet because you are responsible for insuring and maintenance costs, and at the end of the term you take on full ownership.

Equipment leases: In this case, the lender buys the asset then rents it to you on a lease. This is great if you want the asset quickly without having to put down lots of money, as normally you'll only need to pay the first month's rental. You'll also spread the VAT over the whole lease period rather than paying it up front. When the lease period finishes, you'll have the option to take legal ownership of the asset for an agreed nominal fee, upgrade the asset and begin a new lease, or if you prefer, just return it.

Operating leases: Also known as contract hire. Essentially this is a rental agreement with a set term, at the end of which you return the asset. The asset won't appear on your balance sheet, instead the monthly payments will hit your P&L as an expense. Often these are the cheapest option because you're not paying for the full value of the asset.

KEY POINTS TO REMEMBER

- Designed to purchase a new fixed asset
- Secured against the asset you're financing
- There are several different types available
- Hire purchase means the asset appears on your balance sheet
- Operating leases are normally the cheapest option

"Fantastic service - great communication with excellent support all the way!"

Alexander Nairn Barclay

Sale & leaseback

Sale & leaseback is another type of asset finance which is open to businesses that already own an asset and would like to use it to secure additional cash-flow. It involves selling your asset to the leasing provider, and then immediately leasing it back from them for a set period and repayment rate. Depending on the type of lease agreed, the asset may or may not remain on your balance sheet. This can be a great way of unlocking cash-flow against an asset while still being able to reap the benefits of using the asset in your business.

This could also be a good option for a business that has used a high interest loan to fund the purchase of an asset; it may be the case that a sale & leaseback arrangement works out to be cheaper than the existing financing. It can also be beneficial for a business that wishes to keep the value of the asset off its balance sheet, which can be done if arranged as an operating lease.

KEY POINTS TO REMEMBER

- A way of releasing cash-flow from existing assets
- You get to keep the asset while accessing funds
- Could be cheaper than existing financing
- Balance sheet position depends on type of lease agreed

Commercial mortgages

Just like a with residential mortgage this is finance secured against a property, only in this case a commercial property instead of a home. As a rule of thumb most lenders will offer around 70% loan to value, which means you will be able to borrow a maximum of 70% of the value of the property *(requiring you to raise a 30% deposit)*. A commercial mortgage is the obvious choice for a business that wishes to purchase their own premises rather than rent it.

Having a commercial mortgage can protect a business from any sudden rent increases imposed by landlords but bear in mind your monthly payments could still fluctuate if you're on a variable interest rate deal. Owning your premises also protects against being forced to leave your landlord in the instance they decide not to renew a lease.

KEY POINTS TO REMEMBER

- Financing secured against a commercial property
- Maximum loan to value generally around 70%
- Can help protect against future rent increases
- Interest rates will be slightly higher than with residential mortgages
- Additional arrangement and legal fees will apply

> “Excellent experience. Great communication and everything tied up quickly.”

Craig Woollaston

Bridging loans

Bridging finance is essentially a type of temporary loan that bridges the gap between the point when funds are required by a business, and when suitable long-term financing can be obtained. The main benefit of a bridging loan is the speed at which they can be obtained; often in as little as 24 hours. However, with speed comes cost. Due to their fast and short-term nature, they will come at a significantly higher interest rate to other types of finance.

Bridging loans are normally used in the purchase of property and can be very useful in situations where a business needs to move swiftly to avoid missing out on a deal *(for example at auctions)*. They are also widely used by property developers to finance the development of sites during the construction phase, prior to selling them on.

KEY POINTS TO REMEMBER

- Fast arrangement, but high interest rate
- Short term temporary loan
- Allows a business to move quickly on a deal
- Mainly used in purchase or development of properties

“Very happy. They are fast and easy going.”

Darko Miskovic

Getting Prepared

The most important part of any attempt to raise financing is the preparation. It is essential that you spend time looking at your businesses position and ensuring it is in an optimal state of readiness before applying for any kind of funding. Doing so will often make the difference between a successful application and a failed attempt.

Part of this is knowing and understanding what funders are looking for and putting together a strong case as to why they should provide you with financing. These are some of the most important areas you need to consider while you're preparing.

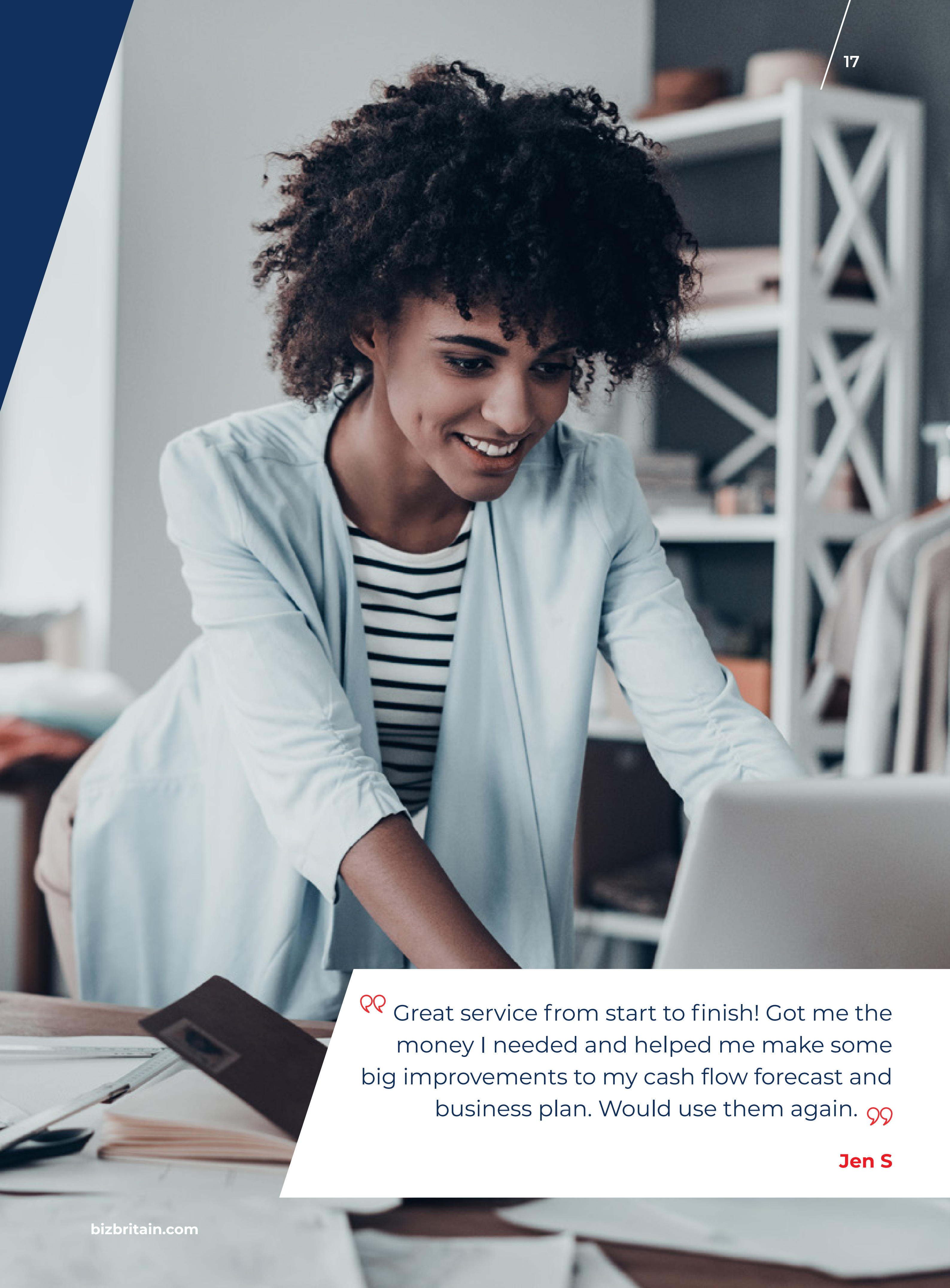
Trading history

Always seek to understand what level of trading history and accompanying evidence is required by the funders you are approaching. For example, it could be they require at least 2 years' worth of accounts to have been submitted with Companies House plus for you to provide copies of your latest 3 months business bank statements. Whatever the requirement, don't waste your time applying to a funder if you don't meet their minimum trading history requirements. You'll only be wasting everyone's time.

Recent banking behaviour

Most funding providers will ask to see copies of your recent bank statements (or ask you to provide open banking access for a set period via your online banking). Firstly they do this because they want to gain an insight into how you manage your account; are you staying within your account limits, are you meeting you current credit commitments on time, have you been bouncing any payments or incurring returned direct debit charges. Secondly, it's to verify what your cash-flow looks situation currently looks like, gauge the legitimacy of sales figures in your accounts, and check whether your business is still performing to the same levels.

Always be sure to scrutinise your statements for the periods you have been asked to provide before you apply to a funder. If there are items that cause you concern, it may be advisable to delay applying until you are able to provide a 'clean' set of statements with no adverse activity.



"Great service from start to finish! Got me the money I needed and helped me make some big improvements to my cash flow forecast and business plan. Would use them again."

Jen S

Affordability

Funders providing debt financing will want to be certain you'll be able to afford your repayments. They do this by looking at what's known as the debt coverage ratio *(DCR)*. This is the ratio of cash available to service any debts including interest, principal and lease payments.

Make sure you've sanity checked the amount you're seeking to apply for against the amount of profit your business is making. For example, if you're making a post-tax profit of £100,000 per year you would want to ensure your total annual repayments would come to an amount comfortably below that figure.

Balance sheet ratios

When looking to raise financing secured against the business's assets, it's important to understand your balance sheet ratios. Funders will want to make sure there is enough asset value in your balance sheet to cover the value of the finance should you fail to repay it as promised.

They are also likely to look at liquidity ratios such as the current ratio *(current assets / current liabilities)* and acid test ratio *((cash + debtors) / current liabilities)*, as well as leverage ratios, which compare the amount of debt in relation to your assets and shareholder equity.

Business plan

While not always required, it can in some cases be helpful to have a business plan prepared. Having a solid plan in place will give funders confidence that you have a clear business strategy in place to help you reach your goals and ultimately generate profits. It will also serve to provide the funder a deeper understanding of your business model and how you intend to make money.

The contents of your business plan will likely depend on the intended audience, though generally speaking should include:

- **An executive summary**
- **Information about key personnel**
- **A market and competitor analysis**
- **Details of target customer base**
- **A marketing plan**
- **Historical financial information**
- **Financial forecasts** *(P&L and balance sheet)*
- **Cash-flow forecasts**

With a quick internet search, you will find there are plenty of templates freely available for download online which can serve as a basis for your own business plan.

"Fantastic Service and helpful support throughout the process. Would not hesitate to recommend."

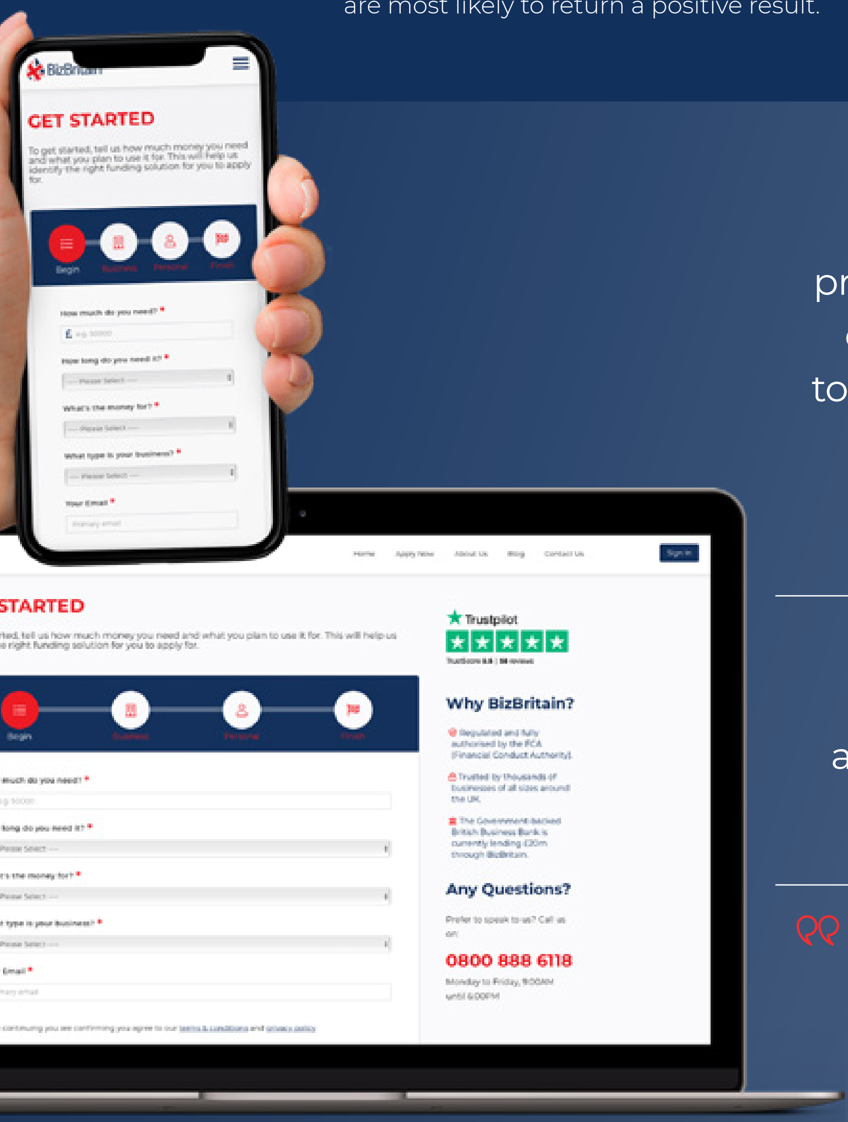
James Williams

Time to Apply

Once you've prepared your business and you're happy that you have a solid case to put forward, it's time to apply for funding. You now have two options; either you go it alone and take your chances with finding the best funders and presenting your case, OR you can choose to work with a trusted advisor who will help you to refine your case, then use their industry knowledge to present it to the funders who are most likely to return a positive result.

At BizBritain we pride ourselves on having acted as a trusted advisor to thousands of businesses, and generated tens of millions of pounds in approved funding deals for our clients. We would love to work with you too, so please don't hesitate to get in touch with us if you feel we could help you in your journey.

Visit our website to apply today



"Meticulous, responsible, committed, can-do lenders; professionalism from soup to nuts; creative and insightful in helping to optimize financial solutions mix. Unreserved recommendation"

Stefan H

"Very helpful and efficient. Effective communication always. Highly recommended"

Manish M

"Brilliant company! So helpful"

Joanne White

About
BizBritain

BizBritain was first founded in March 2012 by multi award winning entrepreneur Matt Gubba as a resource to help people start their own business.

In 2013, BizBritain became a national delivery partner of the Start Up Loans scheme, a £500 Million government programme currently overseen by the British Business Bank, which was set in motion by Lord Young. We are now one of the largest providers across the UK.

BizBritain are fully authorised by the FCA and broker a range of financial products for start-ups and SMEs from a diverse panel of funders.

BizBritain

Find out more at
www.bizbritain.com

0800 888 6118

customerservice@bizbritain.com

Follow us: