

Ripe for the picking:
*A guide to alternative
sources of finance*

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Summary

- ▶ Small and medium-sized businesses need access to finance to enable them to fulfil their growth aspirations
- ▶ Constraints on lending, resulting from the financial crisis, are beginning to ease but a ‘new normal’ has emerged that means traditional forms of finance, such as overdrafts and loans, will not be the solution for all businesses all of the time
- ▶ Businesses are increasingly exploring alternative sources of finance to fund growth and this is being matched by new and exciting developments in alternative finance provision
- ▶ This CBI guide is designed to raise awareness amongst growing businesses of the increasing range of financing options available to them.

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Introduction

A thriving SME sector is critical for maximising the UK's growth potential and access to finance is fundamental to enabling businesses to realise their growth ambitions. This is particularly critical for the UK's high-growth medium-sized businesses. As set out in the CBI's report 'Future Champions'¹, these firms could be worth an additional £20bn to the economy by 2020, but only if they can access the finance they need to grow.

The good news is that the strain on lending, resulting from the financial crisis, is easing. CBI members report an increase in the availability of finance, while the Bank of England's Credit Conditions Survey shows that the cost of finance for small and medium-sized businesses fell in the first quarter of 2013.²

However, the CBI believes the financial crisis has put the UK on an irreversible path to a 'new normal' in financing, with regulatory reform, bank balance sheet restructuring and a more realistic pricing of risk changing the nature of lending for the long-term. The financial crisis has forced UK businesses to address their historical overreliance on traditional bank debt; in the UK banks are the source of nearly 80% of all credit. While traditional forms of finance will



remain a critical and significant source of business lending in the future, businesses are increasingly looking to alternative finance options to fund their growth aspirations.

The UK market is changing to meet this need. There is an increasing choice of lenders, with new challenger banks entering the market. The Bank of England reports that in Q4 2012 Shawbrook Bank's net lending to households and firms was £87m, while Aldermore and Metro Bank reached £251m and £53m respectively.³

In addition to the emergence of challenger banks, the availability of alternative finance options is increasing. This growth is not only from the emergence of new, innovative finance options – such as crowd funding, explored on page 14 – but also from the increased prevalence of finance options that are well-known but under-utilised. Notably, the UK is seeing a significant increase in the availability of asset based financing, with the Asset Based Financing Association predicting that the sector will grow by 9% in 2013.⁴

The changing landscape is also encouraging a debate on the importance of equity investment to growing businesses. Just 3% of small and medium-sized businesses use equity finance in the UK, below the EU average of 7% and much less significant than in countries like Denmark and Sweden, where equity investment accounts for 46% and 31% of SME financing respectively.⁵ The barriers to equity investment in the UK are a feature of the finance market that must be addressed.

To speed up the diversification of the finance market, policy makers have taken a number of steps in recent months. The table on page 6 sets out Government's response and current progress in taking forward the recommendations of the Breedon Taskforce Review, a business-led taskforce set up to identify opportunities to boost finance options in the UK.

The Government has also resolved to take long-term action to ensure the availability of finance to growing businesses when they need it, with the announcement of a state-backed Business Bank.

So the direction of travel is towards a much more diverse financing landscape in the future. This CBI guide is designed to boost awareness amongst growing businesses of the increasing range of financing options available to them.

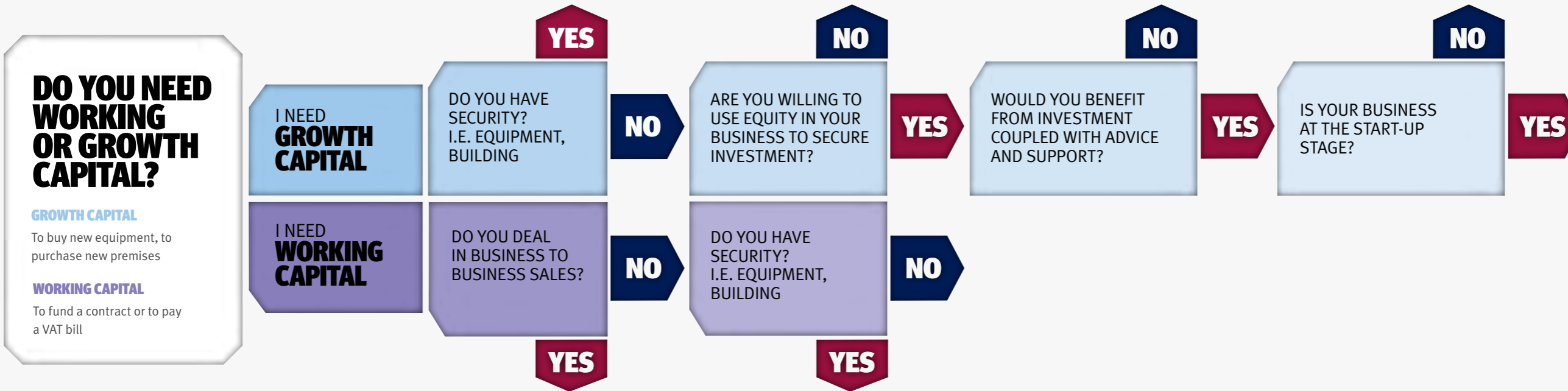
Government action to boost finance options for UK businesses following the Breedon Taskforce

Breedon recommendation	Government action
Increase awareness of alternative financing by creating a single brand and a single business support agency to deliver the Government's range of SME finance programmes, drawing on international examples such as Germany's state-backed bank, KfW.	Government has announced plans to deliver a British Business Bank which will bring together Government finance and support schemes for small and medium-sized businesses in one place. This will simplify the landscape for Government support.
Industry to establish a Business Finance Advice network, comprising the main accountancy bodies.	The Business Finance Advice network central website is currently under development to create a single portal for businesses to find registered advisors.
Open up access to capital markets financing for smaller companies through the creation of a body to bundle and securitise SME loans.	Government commissioned the Association for Financial Markets in Europe (AFME) to conduct a feasibility study of an aggregation platform. The study deemed such an agency as feasible and Government is now considering the report.
Consider the potential for the Government's Business Finance Partnership to invest in innovative products such as mezzanine loan funds and peer to peer lending.	A £100m tranche of the Government's co-investment scheme, the Business Finance Partnership, has invested in innovative forms of non-bank lending including peer-to-peer lenders, online receivables exchanges, supply chain finance and mezzanine finance.
Encourage large businesses to support smaller companies by reinforcing prompt payment practices, supporting greater use of invoice financing and utilising supply chain financing to invest in smaller suppliers.	The Cabinet Office embarked on a supply chain finance initiative in 2012, working closely with a number of large corporates to encourage the introduction of supply chain finance schemes.
UK authorities and business representative bodies should provide an evidence-based perspective of the impact of international regulatory measures on the provision of bank and non-bank finance to UK SMEs and to update their evidence on an annual basis.	Government is in on-going discussion with business representatives and finance bodies to contribute to an evidence-based perspective on the impact of regulatory reforms to SME financing.
Increase the UK retail investor appetite for corporate bonds.	Government has explored, but has not committed to developing retail investor appetite for corporate bonds as 'proposed changes would complicate [the existing set up] and undermine its core purpose of providing a relatively simple, safe vehicle which encourages people to save.' ⁶

Code Policy developed, but requires delivery Recommendation implemented No action taken

ALTERNATIVE FINANCE DECISION TREE

ALTERNATIVE FINANCE DECISION TREE



Asset based lending

- Asset based lending is finance which is secured by assets, such as the debtor book, plants and machinery, stock and property.
- Invoice financing is the most common form of asset based lending and in most cases acts to support business to manage their cash flow, bridging the gap between the delivery of goods or services by a business and the payment from its customer.
- Businesses typically use this type of finance to fund their working capital. Businesses that are experiencing high growth find invoice finance flexible as the borrowing grows alongside the sales ledger. Businesses that have to pay their suppliers before receiving payment from their customer also benefit.
- Asset based lending is suitable for businesses which have business to business sales, where the business is not contractual.
- The total number of businesses in the UK using asset based lending in Q4 2012 was just under 43,000, an increase of 3% on Q4 2011.⁷
- Total advances to businesses reached £17bn at the end of Q4 2012, an increase of 6% on the same quarter in 2011.⁸
- European trade is considered to be more dependent on invoice financing than the United States. The UK has the highest penetration of invoice financing in the world, at c. 10% of GDP, vs. the United States with 1% of GDP. In fact the UK's market at £220 billion a year, is equal to that of Germany and the US combined.⁹
- Barriers to asset based lending have been caused by the perception that it is a finance of last resort. However, this perception is changing and the market is growing.

"...the UK's market, at £220 billion a year, is equal to that of Germany and the US combined."

Seasonal demand for Elizabeth Shaw chocolates needs a flexible working capital arrangement

With a heritage dating back to the 19th Century, Elizabeth Shaw is one of the oldest British confectionery companies. Headquartered in Bristol, the company employs 13 staff and has a turnover of around £10m.

The seasonal nature of product demand poses challenges for working capital at Elizabeth Shaw. During the Christmas period, products fly off the shelves at peak volume. But with plump inventories needed to meet demand and payment for shipped goods yet to be received from retailers, the availability of cash to keep the business running is a challenge. At peak, the business' working capital needs can be 10 times as high as the low periods of the year.

In these circumstances, asset based lending has been essential to enable the company to continue trading smoothly. Elizabeth Shaw utilises up to around £2m of funding through its invoice financing facility, mainly to pay suppliers in the run up to Christmas. The invoice finance facility is then paid down as customers begin to pay for the stock they have taken over the seasonal period. Being able to do this with a single, flexible fund arranged annually in advance, and without the need for an overdraft or other conventional funding, is also an advantage.

David Boulton, Financial Controller at Elizabeth Shaw Ltd says:

"Invoice financing has provided a flexible solution to deal with the natural and unavoidable sales cycle. It has provided quick access to finance, enabling us to continue benefiting from higher consumer and retail demand over the festive season, and helping us to maximise our potential for growth in the longer term."

Online invoice trading platforms



- Online invoice trading platforms are an expansion of the asset based financing market and allows businesses, for a fee, to sell outstanding invoices to investors on an online exchange, in real time.
- Online invoice trading platforms have developed significantly in the UK in recent times, following the creation an online receivables exchange in the US, which has funded \$1bn of small and medium-sized businesses since its inception in 2008.¹⁰

How it works:

- A business applies online as a 'seller' and, after approval by the platform, selects invoices that it wishes to raise finance against
- A pool of investors bid to advance funds against the invoice, with the best bids ensuring a competitive rate
- Funds are advanced into the businesses account, usually within 48 hours of uploading the invoice
- When the business' customer pays the invoice, the business refunds the investor with the advance plus fees.

Manufacturer uses online trading platform MarketInvoice to support its development

Established in 2002, Predator Equipment, a manufacturer of trailers and equipment, employs 13 people and has a turnover of around £1m. With new orders from a large corporate customer in Scandinavia, the business needed working capital to meet the order.

Because the debtor was a successful corporate, MarketInvoice, a UK online finance platform, was able to finance the businesses foreign invoices. Predator has since used MarketInvoice to access funds against over £600,000 worth of invoices.

In freeing up the cash locked in their long-dated invoices, Predator has been able to expand its factory to increase its output, and expand its customer base abroad.

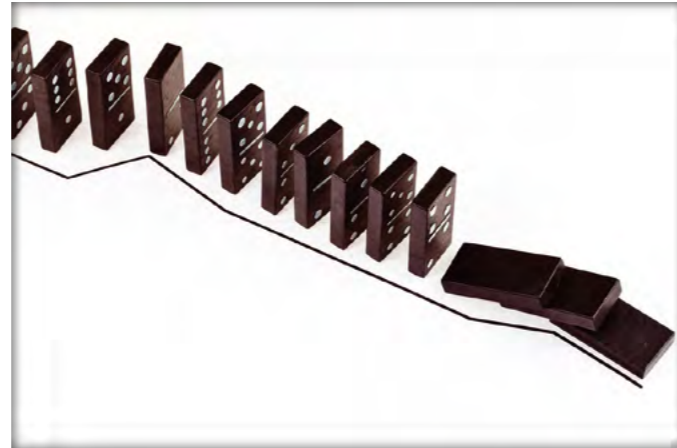
Eamon McVeigh, founder of Predator Equipment:

"I needed flexibility in my financing, the application process was simple and I got an answer within a few days. Since then the process of raising finance is seamless, and takes a lot of the hassle out of my business."



Supply chain finance

- › Supply Chain Finance (SCF) is a way that large companies can use the strength of their balance sheet to support their suppliers, who are generally smaller and often SMEs. SCF works by allowing a supplier to sell its invoices to a bank, or another finance provider, at a discount once they have been approved by the buyer.
- › Instead of relying on the creditworthiness of the supplier, the bank deals with the buyer, who is usually a less risky prospect. This means the supplier gets access to finance at a lower rate than they may have done. That allows the supplier to secure its money earlier and hence improve its working capital position.
- › The Breedon Taskforce Review called on Government to accelerate adoption of supply chain finance and, in response, the Cabinet Office has worked with some of the UK's largest companies to help accelerate the take-up of supply chain finance programmes.
- › The first Government Supply Chain Finance scheme was announced in October, for community pharmacies in England, unlocking up to £800m of new credit for around 4,500 pharmacy businesses.
- › Supply chain finance will not be suitable for all supply chains and it is important that businesses adequately assess their network for suitability.



Trade finance

- › For centuries, financial institutions have provided import/export financing and trade risk mitigation products to secure the risks exporters' face when doing sales deals abroad.
- › While providers of trade finance have seen regulatory change impacting on their ability to lend, the impact has been less acute for trade finance than for other traditional forms of finance. This is because trade credits are typically short-term and recognised as lower risk because they are underpinned by a contract; this makes trade finance an increasingly viable alternative for firms that previously relied on other working capital arrangements to fund export growth.
- › The overall value of global trade finance increased by 86% between 2009 and 2010 which, coupled with 83% of providers of trade finance reporting an increase in demand during 2010, lays the foundations for a healthy and growing market.¹¹
- › Trade finance is suitable for exporting businesses that require working capital on a flexible basis and broadly fall into two categories:
 - » Financing some or all receivables
 - » Financing individual larger contracts.¹²

UK Export Finance

UK Export Finance is the UK's export credit agency, providing Government support to ensure exporters can access the finance they need to do deals overseas. Formerly known as the Exports Credit Guarantee Department (ECGD), it was renamed in 2011. In response to the economic downturn and its impact on the trade finance market, the agency extended its product range, in particular developing new types of guarantees to support small and medium-sized businesses, as well as larger-scale projects. UK Export Finance services include:

- » Insuring UK exporters against non-payment by their overseas buyers
- » Supporting the raising of tender and contract bonds and pre-and post-shipment finance
- » Guaranteeing bank loans to help overseas buyers to purchase goods and/or services from UK exporters
- » Insuring UK investors in overseas markets against political risks.¹³



Peer-to-peer and crowd-funding

- ▶ Peer-to-peer and crowd-funding platforms enable individuals and businesses to lend to small and medium-sized businesses for a specific project.
- ▶ On peer-to-peer platforms, investors make a financial return based on the level of interest the borrower pays. Investors in a crowd-funding bid most commonly receive a non-monetary return i.e. a finished product.
- ▶ Peer-to-peer lending is suitable for businesses which have been trading for at least two years. However, this may vary depending on which platform you use.
- ▶ The peer-to-peer and crowd-funding market is experiencing significant growth in both the UK and US and in 2012 \$2.7bn was raised globally from crowdfunding and peer-to-peer lending.¹⁴
- ▶ From April 2014 the Financial Conduct Authority will regulate the peer-to-peer lending market after calls from providers themselves to be regulated. Regulation will help bring credibility and stability to the market, enabling further growth.

Boost for British design as Dreamgenii® takes advantage of finance through FundingCircle

Pregnant with her first child, Vanessa Blake found herself struggling to sleep at night. After exhausting the range of specific pregnancy pillows available on the market Vanessa took to designing her own, drawing on her personal experience. Vanessa began marketing the product at a pregnancy trade show and rapidly sold out. Although it was apparent that they had a popular product, Dreamgenii® needed access to finance in order to expand the business.

Ready to explore alternative finance, Dreamgenii® approached Funding Circle, a UK peer-to-peer business lender that facilitates loans for small and medium-sized businesses, by allowing individual investors to contribute to a business loan.

The company's loan of £75,000 was accepted and fully funded within two weeks with almost 1,400 people from across the country lending from as little as £20. The company has gone on to develop a wide range of products which are now sold in major British nursery retailers.

The founder of Dreamgenii® described how challenging it became to secure a business loan:

"In spite of our success, many lenders seemed to view us as a venture capital enterprise, but we were keen to keep 100% control of our business. Without a loan from FundingCircle we would have had to invest our own finance into the business."



Retail bond market

- ▶ Bonds are essentially an IOU debt instrument. The purchaser of the bond – usually an institutional investor – is the lender. It receives a set return each year (coupon) for a set number of years, at the end of which the bond can be redeemed.
- ▶ Retail bonds are brought by individual investors, including individual savers, rather than major institutional investors. The minimum amount invested can start at relatively small levels – usually under £1,000.¹⁵
- ▶ Investors in retail bonds can buy or sell a bond at any time through the Order book for Retail Bonds (ORB) and check its price on the London Stock Exchange – just like a share.
- ▶ Companies that have raised funds on ORB increasingly tend to come back to the market, demonstrating how businesses can tap into a new pool of capital.
- ▶ Issues on ORB have ranged from £25m - £300m, with most bonds issued between £50-75m.¹⁶ Since its launch in February 2010, businesses have raised around £3.2bn by issuing bonds on ORB.¹⁷
- ▶ In the UK the retail bond market is smaller than other developed countries. The MOT in Italy, created in 1994, is the most successful, liquid and heavily traded retail bond market in Europe, with over 800 bonds listed¹⁸, raising €700bn since its establishment.¹⁹

"...businesses have raised around £3.2bn by issuing bonds on ORB"

Retail bonds help mid-cap business diversify their long-term funding

Places for People is a property management and development group which owns or manages over 80,000 homes.

Since 2011, Places for People has issued two retail bonds to members of the public keen to invest in the group. It was the first time a housing group had listed on the retail bond market, raising over £180m to be invested in the group's capital expenditure programme and deliver new affordable housing.

The issuing of retail bonds is part of a long-term funding strategy. The group has recently reviewed its long-term funding strategy and is moving towards a more balanced debt portfolio between unsecured and secured borrowings.

Chris Jones, Group Head of Tax and Treasury at Places for People said:

"We're delighted with the support retail investors have shown in these issues. We have raised £180m from the retail bond markets, demonstrating strong demand for investment in the housing sector, which has good credit credentials, stable cash flows, and strong financial viability."

"The retail bond market represents a new stream of finance, and is part of our longer-term funding strategy to diversify our investor base."



Self-issued retail bonds

- It is possible for businesses to self-issue a retail bond which is a finance option used predominately by medium-sized businesses looking for long-term growth capital.
- In Germany, there have been around 200 self-issued bonds, with investors usually from the companies, the customer base or people local to the business.

“...total issuance volume by German and Austrian companies was 1.9bn...”

- In the last year (March 2012-March 2013) the total issuance volume by German and Austrian companies was €1.9bn, with the average issue size around €35m.²⁰
- In the UK, the market for self-issued bonds is less developed, although there have been several high profile bonds raised in recent years, such as by restaurant chain Leon, Hotel Chocolat and Ecotricity.

British Chocolatier raises £4m with ‘Chocolate Bond’

Hotel Chocolat’s strategy to diversify their finance options and their commitment to strengthening their relationship with members of their Chocolate Tasting Club led to the development of a ‘Chocolate Bond’. The ‘Chocolate Bond’, which has raised a total of £4m, gave members of the long established Chocolate Tasting Club the opportunity to invest either £2,000 or £4,000 for three years in return for 6 or 13 boxes of chocolates delivered directly to them every year.

For Hotel Chocolat the bond represented a natural progression in communications to members and customers with whom the business had an existing relationship.

This medium-sized business will use the capital raised to invest in the continued growth and sustainability of the company including creating manufacturing jobs in the UK, opening new retail outlets and ensuring the sustainability of its existing cocoa plantation in Saint Lucia.



Peter Harris, Co-Founder and Development Director:

“The Chocolate Bond gave us the opportunity to build on our relationship with members of the Chocolate Tasting Club by enabling them to engage with the business and with our future plans. The capital raised will be invested wisely to assist in our development plans for the company and we are delighted that members support our business model and future growth plans.”

Private placements

- A private placement is a long-term, typically 5-12 year, fixed-interest debt instrument, issued by a corporate directly to institutional investors, including pension funds and insurance companies.
- Private placements are suitable for businesses who require long-term, senior debt capital, but who are not ready for the public debt markets.
- Because the UK market is underdeveloped UK businesses looking for a private placement most often look to the US market. In the US, the market generally generates loans of \$100m upwards. However, this has evolved over the last few years and it is now possible to arrange placements with values from £20m/\$25m upwards.
- The US private placement market accounts for 90% of the global market.²¹ In 2012 businesses raised over \$50bn with around 40% of borrowers being UK businesses.²² From the large amount of UK companies accessing the US private placement market we can see that there is demand for private placements from UK firms.
- The German private placement market, *Schuldschein*, raised 8.6bn in 2011. The Breedon Taskforce estimated that a UK private placement market could be worth £15bn.²³
- There are barriers to developing a private placements market in the UK, the most pertinent being an underdeveloped investor base and regulatory differences between Europe and the US for unlisted debt. The Association of Corporate Treasurers (ACT) has taken forward a recommendation from the Breedon Taskforce Report to examine how to develop the private placement market in the UK.²⁴

“...placements with values from £20m/\$25m upwards.”

British manufacturing company raises \$125m via a US private placement

Private placements are by their nature “private” and therefore specific information on recent transactions is often difficult to find. A typical private placement would be along the following lines:

A UK manufacturer planned to maintain growth by acquisition and required a diversified and discreet source of funds. The US private placement market was used to obtain \$125m in long-term debt funding to sit alongside their existing UK bank facilities.

The placement required a marketing road show to institutional investors in the US, and whilst there is no requirement for a credit rating, US private placements automatically receive a rating from the NAIC (National Association of Insurance Commissioners). The investors carried out detailed due diligence with the management team to match their long-term investment approach. The documentation was done in a standardised format and aligned with existing UK bank facility terms. The process took 12 weeks from initial decision to receiving funds, with long-term pricing for a 10 year deal sitting naturally above an equivalent 5 year price.

Dominic Jaques, Managing Director of independent treasury adviser Tresaurs says:

“Private placements are a potential source of long-term growth funding, with the benefits of a well-defined process and diversified source of funds with institutional investors. Against this is set the frustration that the majority of UK companies have to go to the US to access the funding, and this usually adds a complexity in having to manage exchange rates.”

Business Angels

- Business Angels are most commonly high-net worth individuals who invest in early stage or high growth businesses, either directly or through organised networks and syndicates.
- Business Angels usually have substantive knowledge and experience of growing businesses and can act as a mentor for the business, providing advice and guidance.
- Angel investment is suitable for seed or early stage companies looking for their first or second stage of external funding to grow rapidly.
- There are approximately 18,000 business angels in the UK, investing an estimated £850m per annum.²⁵ If a business qualifies for investment under the Enterprise Investment Scheme or Seed Enterprise Investment Scheme, then investing in the business may be more attractive for Business Angels. 57% of Business Angel investments make use of the scheme.²⁶

“There are approx 18,000 business angels in the UK”

Seed Enterprise Investment Scheme and Enterprise Investment Scheme

Both schemes offer a tax relief to the investor in order to encourage investment in start-up and early stage companies.

SEIS applies to investments in small companies of less than 25 employees, with assets of less than £200,000. Companies can receive a maximum of £150,000 under SEIS.

EIS eligible companies must have fewer than 250 employees with assets of less than £15m.

Across these schemes businesses can raise a maximum of £5m in any 12 month period.



Venture Capital

- Venture Capital funds invest in early stage, high-risk, but high-potential businesses.
- Typically after a 3-7 year investment, the venture capitalist will exit the company by selling their shares, either back to the business or to another investor.
- Venture Capital investment is most typically suited for early stage companies that are experiencing high-growth or have potential for high-growth.
- The UK boasts the largest venture capital market in Europe, accounting for 21% of all globally invested amounts.²⁷
- In 2009, the BVCA's venture capital members collectively raised £1.5bn to invest into companies in the UK and abroad. The average investment into a British company was £763,000.²⁸

“...The UK boasts the largest venture capital market in Europe...”

Venture Capital investment drives growth for young business

TR Fleet was established in 2010 and provides tailored fleet consultancy. The company has ambitious growth plans and a vision to revolutionise current fleet practices.

To achieve this growth, TR Fleet looked for investment to support a number of senior level appointments, and to boost the company's capabilities to develop in-house programmes and Intellectual Property.

In 2012, TR Fleet was selected to take part in the Goldman Sachs 10,000 Small Businesses programme, and during the selection process was identified as a high potential business by venture capital company, Midven. As a result, TR Fleet secured £300,000 investment from Midven to support the company's business plan.

Julie Summerell, Managing Director of TR Fleet:

“As a senior management team we have a clear vision for the company and are committed to realising our growth ambitions. The investment from Midven means that we will meet those targets more quickly, by giving us the capacity to secure high quality people and develop our own products and services.”

Corporate venturing

- Corporate venturing is a formal, direct investment relationship, usually between a larger and a smaller company. The larger firm provides direct support to smaller businesses usually in three ways, although some partnerships combine these types of investment:
 - » By making a financial investment in return for an equity stake in the business
 - » By offering debt finance to fund growth activities for an agreed return
 - » By offering non-financial support for an agreed return, such as providing access to established marketing or distribution channels.
- Large businesses engage in corporate venturing for a number of reasons. It may be undertaken as a simple financial investment or as an opportunity to become an alternative provider of finance in the market. A firm might engage in corporate venturing for the strategic value it can provide e.g. supporting its supply chain, gaining market insight or ensuring knowledge transfer.
- Corporate venturing is most attractive to growing businesses that would value a partnership approach to their next investment. Whether in providing knowledge or routes to market, the partnership in a corporate venturing arrangement will be diverse, as it is tailored to the needs of both parties.
- The corporate venturing market in the UK is difficult to measure as research tends to focus on large corporates with formal corporate venturing units undertaking equity deals. However, research shows that these deals are increasing and the UK is undertaking more deals than European counterparts.²⁹

Michelin Development: providing funding and support for local SMEs

Michelin Development was set up in 2002, in order to provide funding and expertise to local small businesses around the areas in which Michelin operates (Ballymena, Dundee and Stoke-On-Trent.) Michelin Development aims to stimulate and safeguard employment, while encouraging skills and entrepreneurship to support the long-term future prosperity of the local region.

SMEs in the local areas are given access to unsecured finance at Bank of England base rate, with a repayment period of up to five years. As well as funding, companies also have free-of-charge access to independent advice from Michelin's staff.

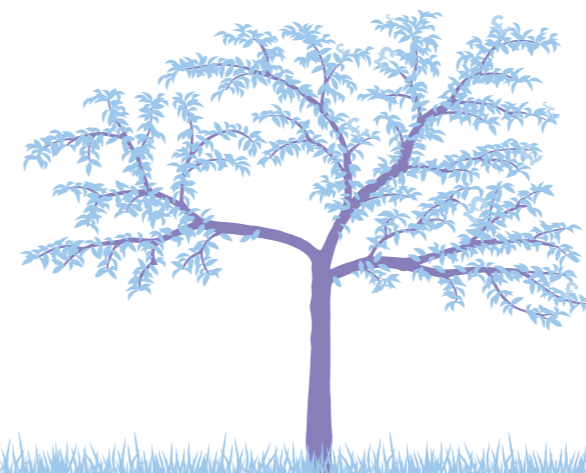
Around 190 companies have benefitted from Michelin's support so far, with loans totalling more than £5m. This has helped create around 2,200 new jobs across the manufacturing and service industries in the UK.

Mike Cole, Head of Michelin Development:

"Michelin has always been involved in supporting local communities, but we launched Michelin Development specifically to help the regeneration of local business communities and in particular, to create quality, sustainable jobs. Michelin Development has helped many firms gain vital access to funds, which are ultimately unlikely to have been available through traditional means."

Business Growth Fund

- The Business Growth Fund (BGF) was set up in July 2010 by members of the Business Finance Taskforce as an independent company. BGF – with the financial backing of five of the UK's main banking groups, Barclays, HSBC, Lloyds, RBS and Standard Chartered – has capital of up to £2.5bn to invest in eligible businesses.
- BGF provides growth capital and typically invests between £2-10m for a minority equity stake (10%-40%) and a seat on the board, in established UK companies that can demonstrate a strong growth trajectory, and typically with a turnover of between £5m-£100m.
- BGF invests from its own balance sheet and so can offer long-term funding of up to 10 years, and can also provide further funding as companies continue to grow.
- BGF invests in all business sectors with the exception of regulated financial services and property development.
- As of early 2013, BGF has made 25 investments and has committed over £120m of new money to fund the expansion of growing British firms from a range of sectors.
- In 2013, BGF is targeting investment of around £200m.



"...typically invests between £2-10m for a minority equity stake..."

BGF invests alongside existing investors to support oil and gas manufacturer

Magma Global Limited is a Portsmouth-based designer and manufacturer of a range of high performance carbon fibre pipe for subsea oil and gas applications. The subsea market is one of the fastest growing areas of the oil and gas industry and Magma were keen to gain investment to fully enable them to exploit the market opportunities.

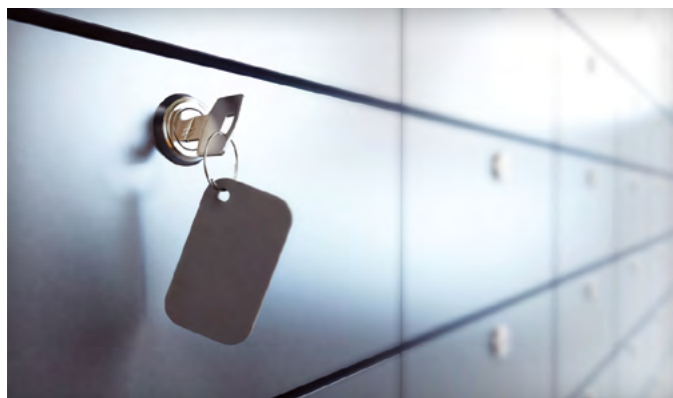
In December 2012, BGF announced a co-investment of growth capital into Magma of £8.76m, with the remainder of the funds provided by the existing investors, Kern Energy Partners and NES. Magma will use the new investment to install a new, high-tech manufacturing facility on a brownfield site in Southampton. The plant will have the capacity to produce up to 250km of pipe, and will allow Magma to export pipe to international markets, and provide a platform for further international expansion. Magma currently employs 90 people, and the new plant should create an additional 100 jobs.

Martin Jones, founder and CEO of Magma Global:

"Kern and NES backed us from the beginning and have been a great support, as we take on more capital to accelerate our growth it's great to have a UK investor come on board. BGF has taken a flexible and accommodating approach to this investment round which has smoothed the process of integrating with the needs of our current investors and the management team. This has been very important to us."

Private equity

- Private equity firms provide medium to long-term finance in return for an equity stake in unquoted companies with high-growth potential.
- The investors return is dependent on the growth and profitability of the business. As a result, most private equity investors will seek to work with you as a partner to grow the business.
- Private equity investment is most suitable for firms looking for longer term capital to fund their expansion activities.
- In 2011, around 800 British companies benefitted from private equity investment, of which around 70% were small companies and 20% medium-sized businesses.³⁰
- The value of private equity investments, trebled between 2003 and 2007 from £4bn to nearly £12bn.³¹ As of 2011 private equity investments totalled £18bn.³²



“As of 2011 private equity investments totalled £18bn.”

Equity investment enables family business to drive export growth

Vita Liberata is a premium self-tan brand, with products manufactured and distributed from Northern Ireland. The founders had successfully grown the business domestically, but were struggling to keep up with its growth and success. The management recognised that the business required investment capital and strategic support to help control and manage its international growth.

Vita Liberata approached Broadlake, a local corporate finance house, to find a strategic investor to provide capital and management support to help take the business to the next level. Broadlake manages a fund of €100m and looks to invest between £2-10m in long term capital and strategic support to established and growing companies. They have invested in 45 SMEs in the past 20 years.

Broadlake structured an investment deal in which equity and control was shared equally and the investment also assisted the company in securing a new banking facility. The company has doubled turnover and recruited an extra 20 people. The company has opened up operations in North America and France and has had considerable success in winning distribution amongst Europe and North America retailers.

Alyson Hogg – CEO of Vita Liberata:

“We realised we were hurtling so fast past ourselves that we couldn’t keep up. We needed to look at our strategy for growth... We needed to look for partners. We spoke to four companies and the offers were not dissimilar, so it was really asking, from our perspective, who can bring the biggest smarts and that was Broadlake... We are free now to go out and capitalise on all of the opportunities coming our way.”

Public equity markets

“...over 3,000 companies from across the globe have chosen to join AIM – collectively raising over £80.6bn...”

Technology company lists successfully on AIM

WANdisco is a software company with headquarters in both Sheffield and Silicon Valley. After four or five years of development, they wanted to expand. WANdisco decided that AIM was the best choice for them.

CEO David Richards:

“There is no junior public market in the US. The investment banking community does not really want to look at any company with a turnover of less than £50m, so smaller businesses tend to turn automatically to venture capital and private equity. We decided to be different... Some people say that London is not the right place for technology companies to raise equity capital. I think that is completely untrue. When a fast-growing technology business with a good story comes to market, fund managers really want to be part of it.”

Following their admission to AIM in June 2012, WANdisco has increased its value fourfold.

Richards remains enthusiastic:

“Ultimately, our flotation was incredibly oversubscribed. We were going to raise £10 million; we raised £15m, but we could easily have raised £40m. I am sure that a lot more technology companies would come to AIM if they really understood what it offers...”

“Listing has already had a significant impact on the business. We have been able to hire people that we would not have been able to hire before, and customers have responded really positively to our flotation. And, of course, we now have the capital to continue pursuing our ambitions. It was a fantastic decision.”

- In public equity, unlike private equity, the business becomes publically listed with shares able to be brought and traded by the public.
- The main public equity market in the UK and Europe for growing businesses is the Alternative Investment Market (AIM) which is operated by the London Stock Exchange. AIM offers smaller growing companies a public market with access to both retail and leading institutional investors within a regulatory environment designed specifically to meet their needs.
- There are no rules requiring companies to be a certain size or have an established trading record. However, a Nominated Advisor (Nomad) would expect that a strong AIM candidate would have strong growth prospects and a record and management team that compares favourably with its peer group.
- Since its launch in 1995, over 3,000 companies from across the globe have chosen to join AIM – collectively raising over £80.6bn (including £44.6bn in further issues).³³
- Companies will often go through secondary rounds of funding on the market and many progress from AIM to the Main Market.
- The recent announcement in the 2013 Budget, abolishing stamp duty on shares for companies listed on growth markets including AIM, will result in greater availability of finance for these companies. In addition, the Government is currently consulting on extending ISA eligibility to invest in shares traded on the public equity markets for growing companies across the EEA. This will assist in boosting investment to these businesses.
- Both these measures demonstrate that broadening the investor base for small and medium-sized business through appropriate fiscal and regulation incentives is an effective way of increasing access to finance.

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CBI M-Clubs Championing medium-sized businesses



CBI M-Clubs are exclusive member networks for medium-sized business owners and managers. They offer business leaders the chance to network with peers, receive expert advice and share best practice, on issues that really matter.

The CBI's report, *Future Champions: unlocking growth in the UK's medium-sized businesses*, showed that medium-sized businesses have been a neglected part of the UK business community for too long. It is now time to champion the sector so they can successfully reach their growth potential – worth an additional £20bn to the UK economy by 2020.

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"In our business, the weather makes predicting sales notoriously difficult, so, meeting potential spikes in demand means building up huge stocks including over 500 miles of garden fencing. GE Capital's Stock Facility plays an essential part in sharpening our competitive edge." **Duncan Hill, Managing Director, Grange Fencing**

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