



RAISING FINANCE IN THE POST CREDIT CRUNCH ENVIRONMENT

17th June 2008

**JEREMY RAYMENT FCA CF
Director of Menzies Corporate Finance**

Coming up...

- Getting your story across – framing your business case
- Sources of finance and the suitability of finance for respective opportunities
- Firstly – **'the market'** and classic hallmarks of successful fund raisings

Market Outlook for finance opportunities – key headlines

- **Good news**
 - Plenty of money seeking business opportunities
 - debt and equity
 - There is a correction in shareholders' views on valuations of businesses reflecting better value opportunities to purchase
 - Management Buy- Outs
 - Complimentary business acquisitions
- **Bad news**
 - Economic circumstances changing which may hurt business models
 - This is not driven by the ability or otherwise to finance businesses but by reference to the income and cost lines - e.g. energy prices and retail spending
 - Finance raising timelines have extended to take account of more rigorous credit reviews
- **Life continues as before.... with a small change**
 - Good investment cases will always be capable of raising finance
 - Over recent years there is much more availability of reference information and database sources

Hallmarks of successful finance raisings

- Management, Management, Management
- Knowing the 'game' and rules of engagement with financiers
- Realistic knowledge and understanding of the market dynamics for raising finance
 - 'if I knew what I know now I'd have approached it in a different more realistic fashion'
 - 'I was told that there would be a lot of time taken up by the project, but I never appreciated the sheer scale of contractual and financial analysis and detail that was required to complete'
- Communicating the business case
 - Forecasts
 - Investment Proposal
- Contact relationship points at financial institutions

Getting your story across – the marketing process

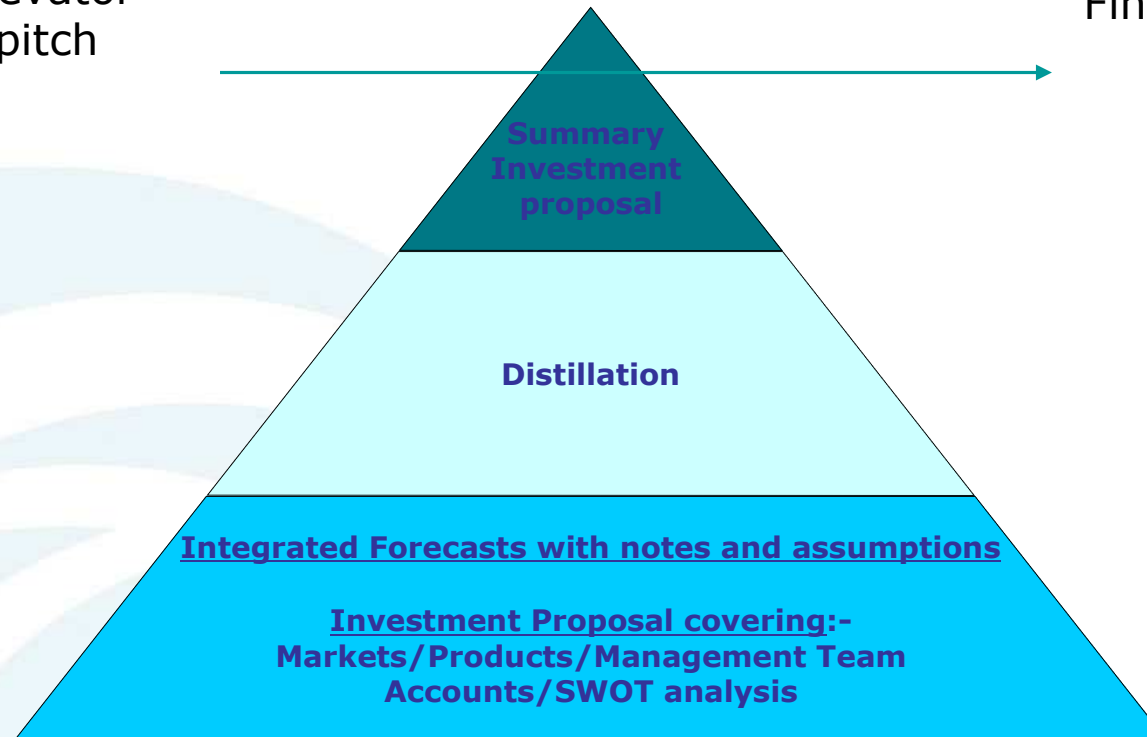


Elevator pitch

Financier



Ground up assessment



Drill down appraisal process

The key descriptive elements to the Elevator Pitch

SECTOR	Financial Services Retail Healthcare Technology MEDIA Leisure
BUSINESS MODEL	Wholesale Distribution Retail BUSINESS TO BUSINESS SERVICES Franchise
MANAGEMENT	2 OWNER- MANAGERS 50-50 SPLIT Family Owned (75%) Independent Management (25%) Young Entrepreneur
SIZE & STAGE	Seed/Concept Start-Up 3 years old Early Stage 15 YEARS OLD MATURE, GROWING
FINANCE REQUIRED	£250–500k £500k-1m £1-2m £2–5m £5–20m

Investment risk – an introduction

- Financiers categorise businesses and investment opportunities typically by reference to the risk and likely return. (More on this later)

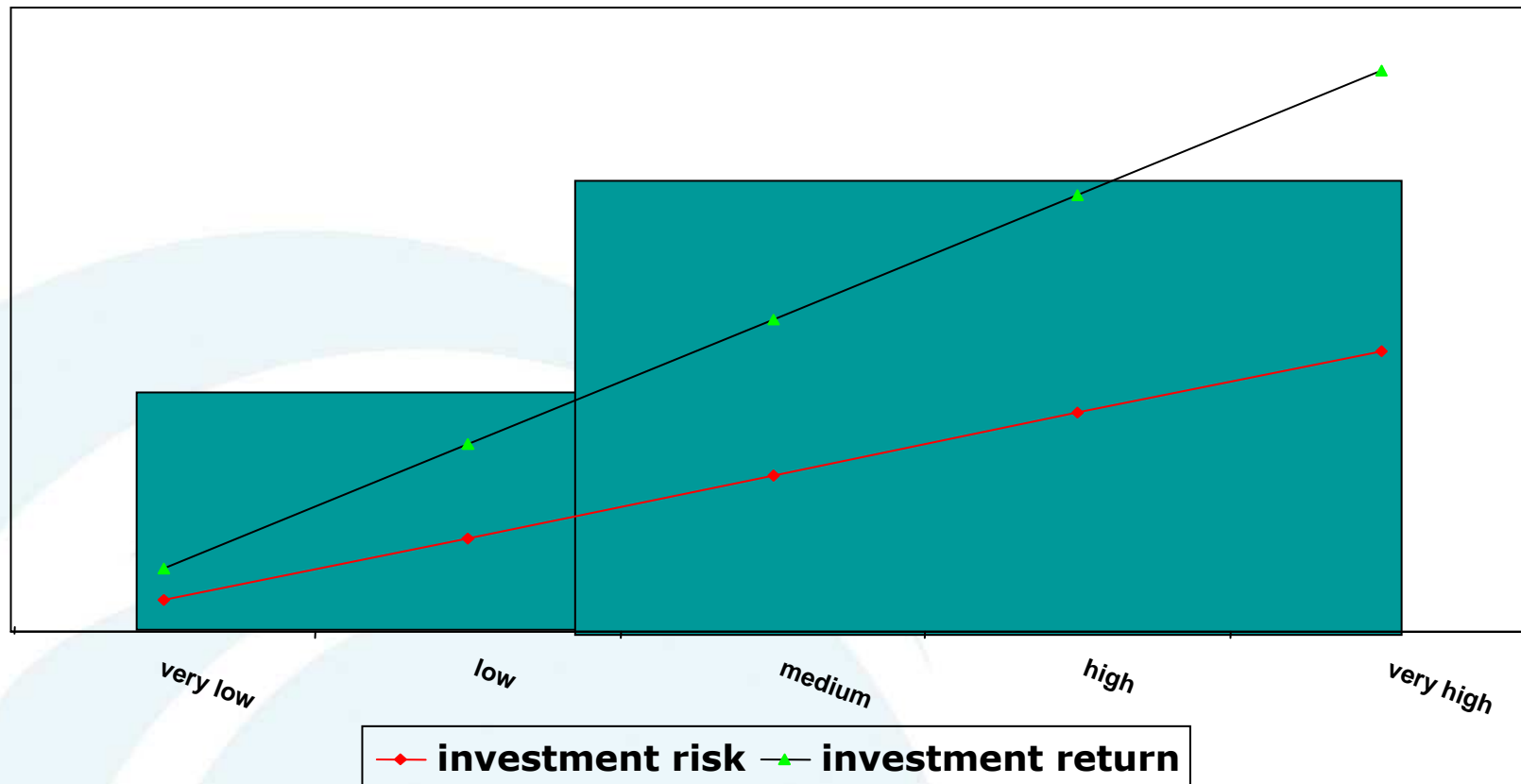


- Purchase price £1m
- Raise £500k finance
- Immediate use of property
- Acquiring business position
- Oodles of income to service the loan



- Purchase Price £1m
- Raise £500k finance
- Property needs planning consents for change of use for purpose of acquiring
- Acquiring business position
- Business will struggle to service the loan until consents are granted

Which source of finance is appropriate – debt or equity?



Comparing Debt and Equity Finance

- **Debt**

- **Low risk - low return finance – security based**
 - Broad group of assets can be financed
 - Future cashflow can be financed against maintainable cashflow generation (leverage)
 - No sharing of decision making or control of the business
 - No sharing in uplift of business value
- **Cost of debt finance**
 - circa 10%
 - Fixed cost and terms
- **Amount of debt finance advanced**
 - Multiples max c2.5 - 3 * maintainable EBIT

- **Equity**

- **High Risk – high return finance – value based approach**
 - Whole business or projects financed
 - A sharing of decision making and control of the business
- **Cost of equity finance**
 - between 30%-60% annually
 - 'Exit' driven finance
- **Amount of Equity advanced**
 - Depends on business value and the ability to get a capital gain in the future

Business valuation aspects regarding equity (whether buying or selling)

- **Where investment is involved, business valuation will form an integral part of the process**
 - If buying a business (MBO/acquisition alongside existing business) you'll want to ensure its not overpriced
 - If selling a stake in your business to raise finance, you'll want to ensure yours is not undervalued
- **A health and wealth warning - be informed and in touch**
 - 19th hole golf chat is not a good guide to business valuation or financing

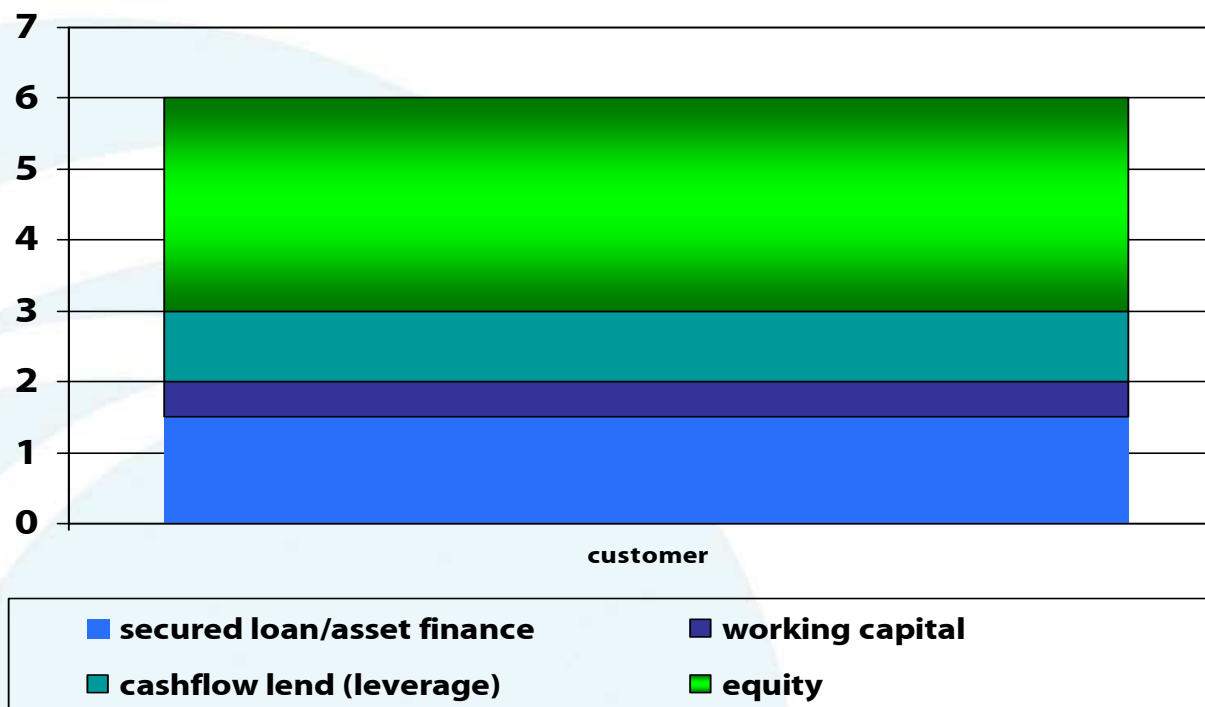
The 'Equity Gap' – when financing a business acquisition

Private company valuations

Typically valuations are by reference to underlying profitability of the business. EBIT is the profit measurement

Valuation multiples 4-6 * EBIT adjusted - NB equates to a traded company P/E of circa 5.7 - 8.5 due to post-tax measurement

Multiple EBIT Financing



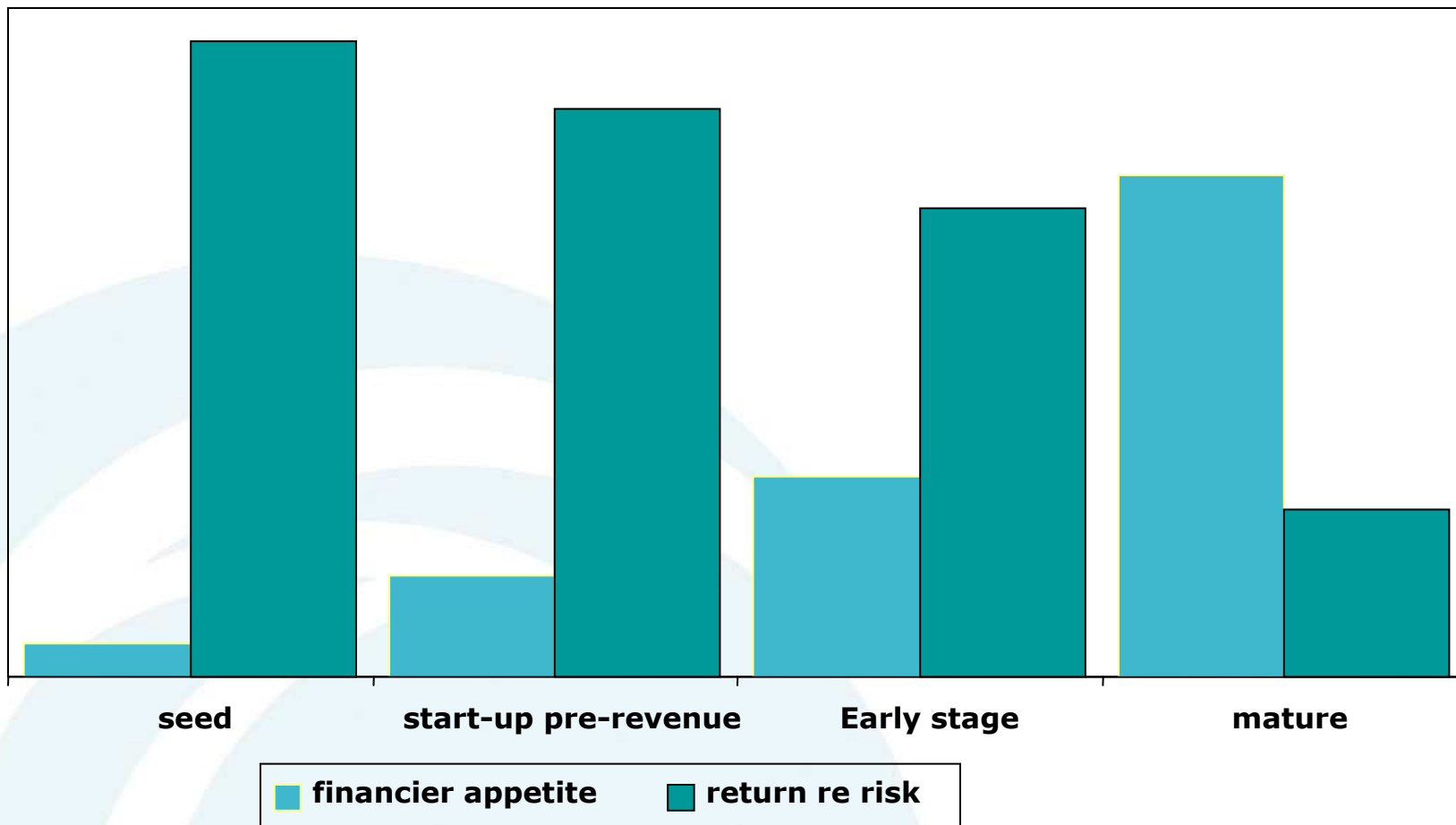
Misconceptions regarding Equity Financing

- Deal size – ‘Only mature large deals are of interest’
 - Not true! Big deals make big news
 - A considerable number of < £10m transactions every year
- Equity assistance
 - £250k upwards can be sourced institutionally
 - Beyond £2m + a considerable number of institutional equity sources

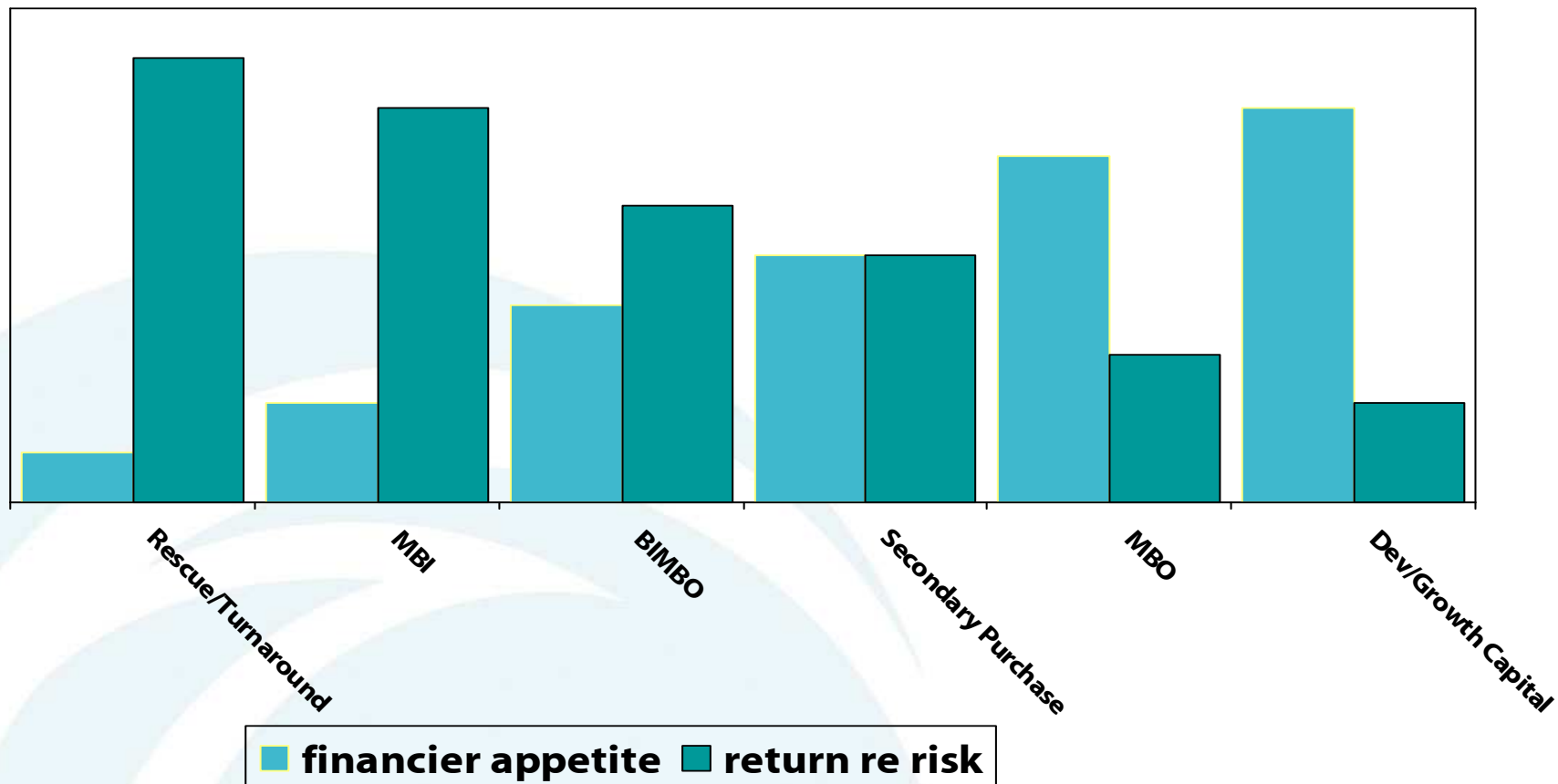
Choosing your Equity Provider

- The correlation of your interests with your investors; questions to ask:
 - Future length of their involvement in the business?
 - Do they have a hands on investment style?
 - Are they driven towards an exit to get a capital gain?
 - How deep are their pockets – can they comfortably 'follow on' with further investment?
- Uplift in financial and market covenant
- Robust statistical evidence reflects that Private Equity backed businesses enjoy a higher growth rate than independent businesses and in value terms outperform the UK listed market indices
- Private Equity involvement to economic contribution of employment growth and wealth in the UK is considerable

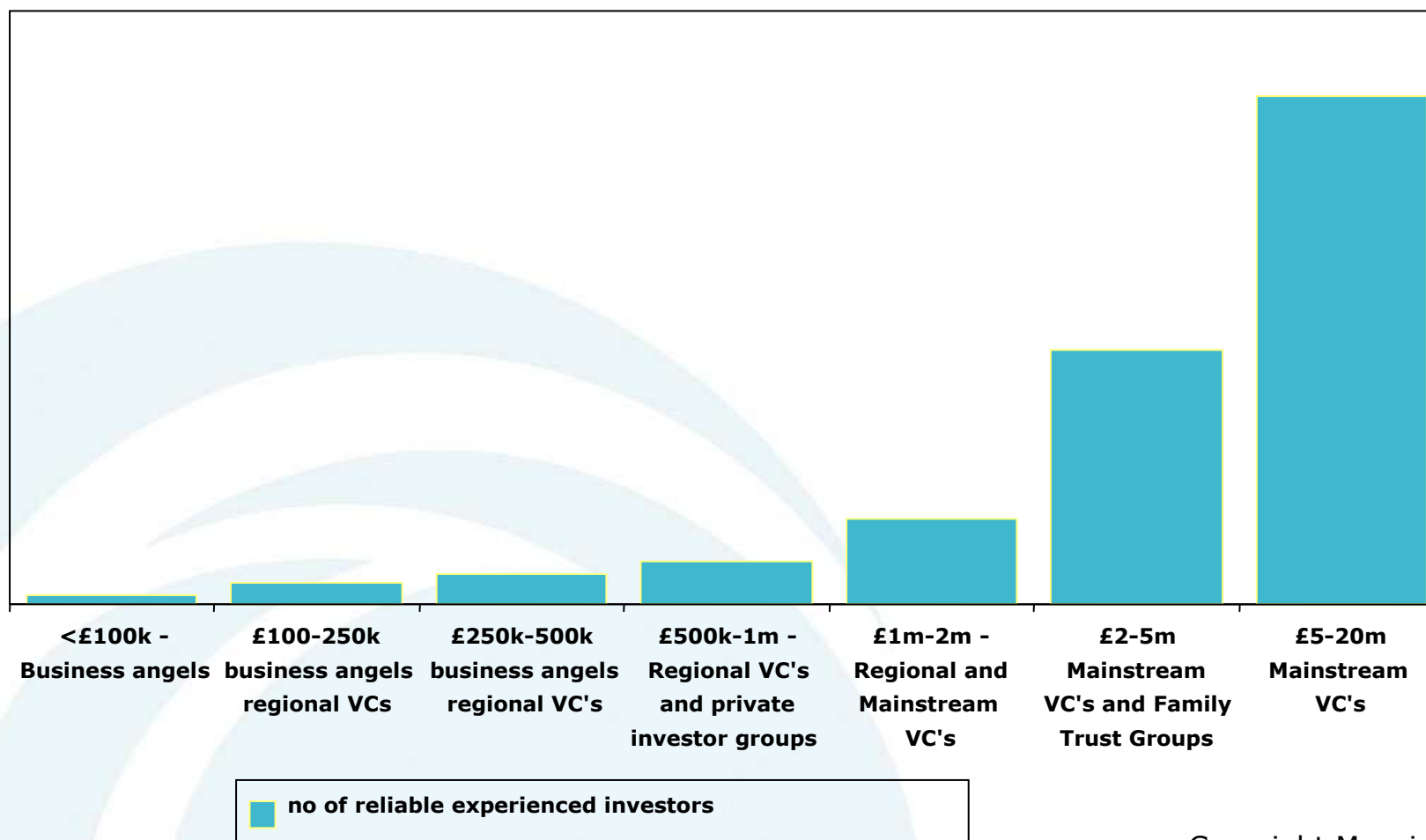
Stage of Investment – financier appetite



Type of investment – financier appetite



Size of Investment – Equity financier appetite



Rounding up today.....

- Hope you've come away with some positive news and views today:-
 - There is money out there for good business propositions – banks and other institutions
 - Business valuations and vendor expectations are correcting

- Hope you've come away with some pointers on the following:
 - How to frame your story
 - How financiers categorise opportunities
 - Where financiers appetite for businesses opportunities is greatest

- Finally – life's precious resource
 - Time not money!
 - Take the time to think over and discuss your business and its potential with a view to having an impartial understanding and timely view on what is possible.

- Any Questions.....?

