



Obtaining Investment: How to find funding and what a typical investment looks like.

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Introduction

Michael Budd



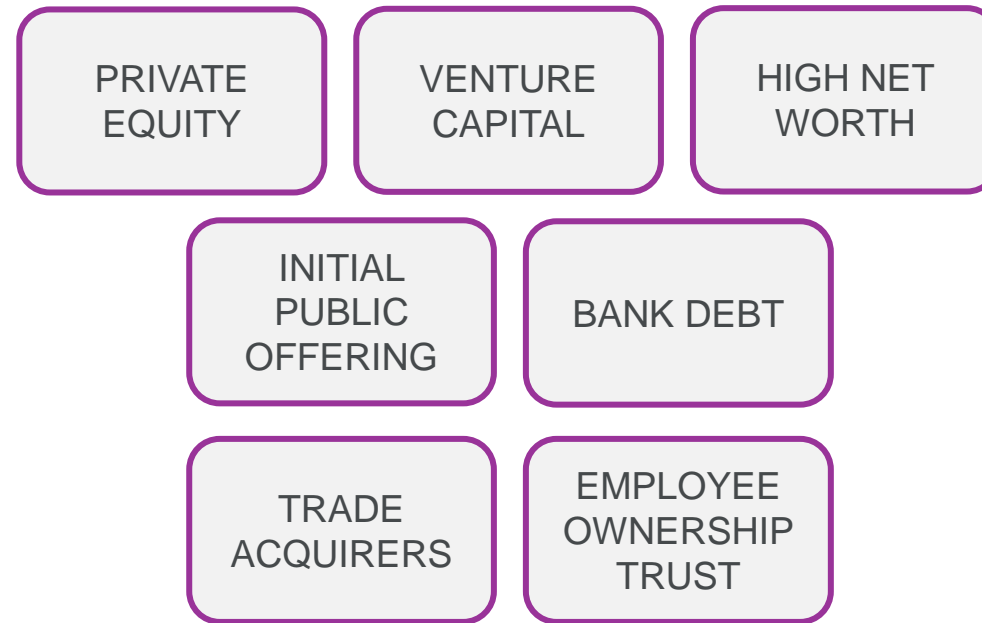
Obtaining investment: Adrian Howells



SOURCES OF FUNDING

THERE IS NO ONE SIZE FITS ALL

Sources of funding:



Various factors to consider:

- i. What are you hoping to achieve? (investment for growth, realising value, sale?)
- ii. Size of your business together with stage of business lifecycle (mature or early stage?)
- iii. Quantum sought
- iv. Use of funds



FUNDING UTILISATION

	Investment for growth	Realising value	Sale
Private equity	✓	✓	✓
Venture capital	✓	?	?
HNW	✓	?	?
IPO	✓	✓	✓
Bank funding	✓	✓	?
Trade acquirers	✗	?	✓
EOTs	✗	✗	✓



PREPARATION IS KEY

- i. Be prepared – strength/credibility of financial data, business plan, forecasts, *invest in your process*
- ii. Allow yourself time to prepare – processes are hugely invasive to you and the business
- iii. Legal/contracts up to date, resolve any staffing issues
- iv. Improve quality of earnings
- v. Figure out what you want to achieve
- vi. Understand how a process works

IS NOW A GOOD TIME TO SEEK INVESTMENT?



This lettuce outlasted Liz Truss

speech to the nation at a time TBC

Breaking: The lettu



IS NOW A GOOD TIME TO SEEK INVESTMENT?

There are challenges ahead:

- i. Instability in markets – Sterling, inflation, recession
- ii. Uncertainty in government, tax regime, regulatory environment, international relations
- iii. Impact on values

Now might be the time to act:

- i. Investment in strengthening business before headwinds
- ii. Getting ahead of the problem
- iii. If not now, when?



WHAT ARE INVESTORS LOOKING FOR?

- i. Certainty – losing money is not an option
- ii. Making money – typically look for 3.0x MM return over period, assume period is 3-5 years, but varies more these days
- iii. Something they can understand (good business case, legible financials, clear strategy); they need to sell the proposition internally



EXAMPLE TRANSACTION

Widget Manufacturers Limited has an older owner/founder who is majority shareholder (85%).

Management own the remaining 15%.

Founder is looking to retire and fully exit, management will stay and lead a Management Buy Out.

Business makes £3M EBITDA.

Industry multiples are typically 5x.

A transaction is agreed with private equity to exit the founder, back the MBO team and include some development capital to help the business grow.

As a leveraged buy out, the PE House will use bank debt to help fund the transaction.

The selling price is £15M.



EXAMPLE TRANSACTION

VALUE (PRE MONEY)

EBITDA	3,000,000
Multiple	5
Enterprise value	15,000,000
Cash	2,500,000
Debt items	(500,000)
Equity value	17,000,000

SHAREHOLDINGS

Founder	85%	14,450,000	Exiting fully
Management	15%	2,550,000	Rolling 50% for 49% of Newco
	100%	17,000,000	



EXAMPLE TRANSACTION

FUNDING REQUIREMENT

Cash out for founder	14,450,000
Cash out for management	1,275,000
Development capital	<u>3,000,000</u>
	18,725,000
Bank funding available (2.5x)	7,500,000
PE funding requirement for acquisition (net of cash out)	6,225,000
Of which equity (10%)	622,500
Of which loan notes (90%)	5,602,500
PE funding requirement for dev cap	3,000,000

POST TRANSACTION SHAREHOLDINGS

	Value input	of which equity	Imputed shareholding	Sweet equity shares	Final equity	Final shareholding
Management	1,275,000	127,500	17%	468,623	596,123	49%
Private equity	6,225,000	622,500	83%	-	622,500	51%
	7,500,000	750,000	100%	468,623	1,218,623	100%



EXAMPLE TRANSACTION

SOURCES

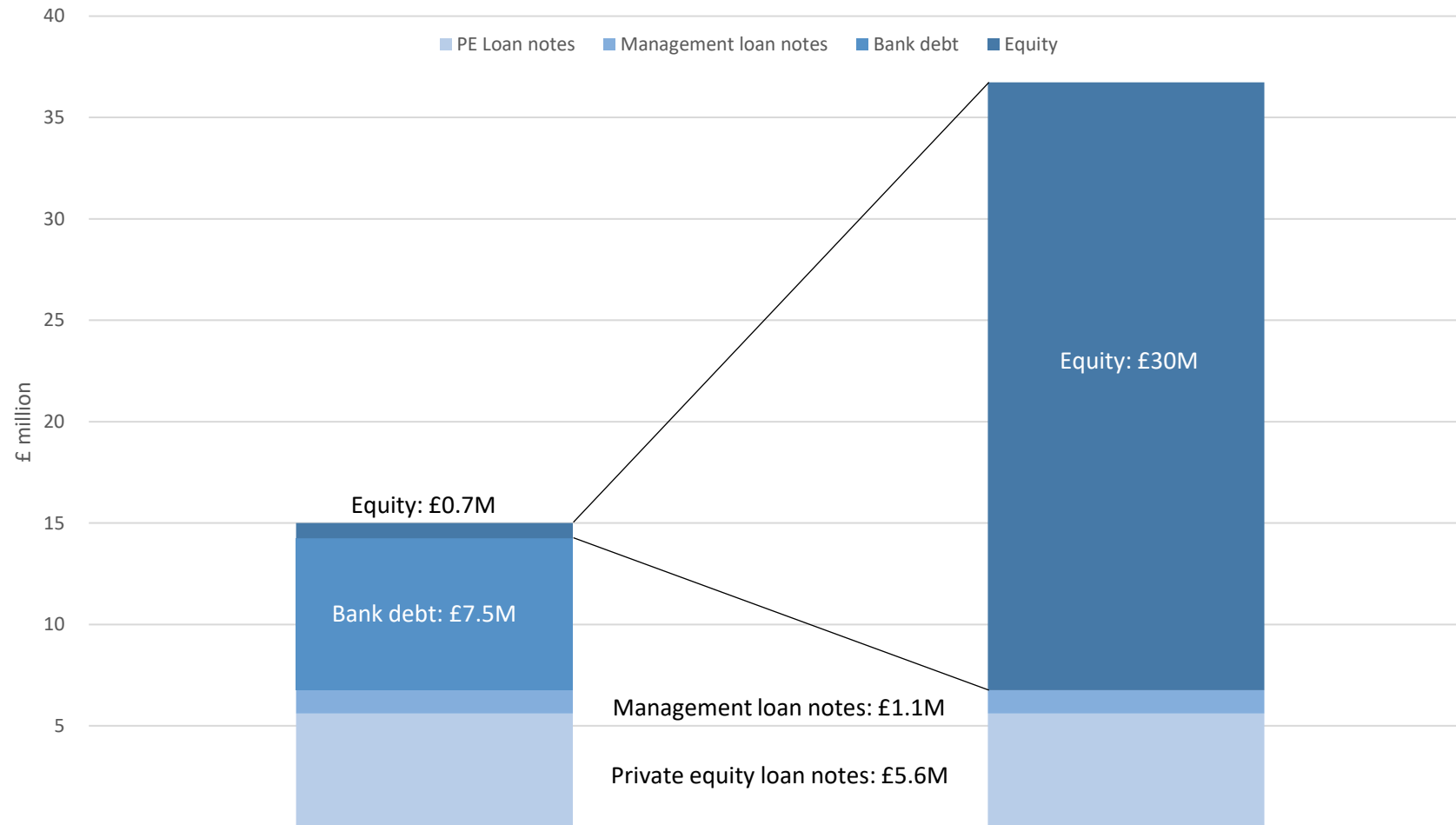
Bank	7,500,000
Net cash	2,000,000
Vendor equity	127,500
Vendor loan notes	1,147,500
PE equity	622,500
PE loan notes	5,602,500
PE dev cap loan	3,000,000
	<hr/>
	20,000,000

USES

Cash out to founder	14,450,000
Cash out to management	1,275,000
Development capital	3,000,000
Vendor roll into Newco	1,275,000
	<hr/>
	20,000,000



EXAMPLE TRANSACTION





Documenting Investment

Michael Budd

Venture Capital / Private Equity

- Usually larger investment round with more money and bigger plans involved
- Often set documents produced by the VC / private equity holding a lot of which is considered non-negotiable
- Aim for PEH is usually to exit in 5 years
- Typical documents:
 - Investment agreement
 - Articles of association
 - Service agreements for founders / directors





High Net Worth

- Often first or second round investment
- Enterprise investment scheme (EIS) /Seed enterprise investment scheme (SEIS)
- Convertible loan note (CLN)
- Advanced subscription agreement (ASA)
- Due diligence
- Shareholders agreement and articles of association

Initial Public Offering

- Preparation for listing on AIM (alternative investment markets)
- Conversion to public company: share capital, number of directors
- Due diligence (very involved)
- Admission document / prospectus (Part V: Statutory & General) – tells you everything about the target company – the good and the bad
- Policies / procedures
- Listing Rules



Policies



Bank or Private Funding

- Loan agreement
- Repayment terms
- Security
- Default
- Personal liability
- Consent



Trade Acquirers

- Share sale / asset sale
- Due diligence
- Warranties / indemnities
- Purchase price structure
- Sale and purchase agreement

Employee Ownership Trusts

- Tax efficient exit for owner(s) where management buyout (MBO) or other exit strategies not available / appropriate
- Shares in “trade co” are sold to “trust co”
- Consideration is deferred and paid by way of loans and the like from “trade co” to “trust co”
- Beneficiaries of “trust co” are the employees – hence employee ownership
- Documents: Share purchase agreement, articles of association, trust deed, employee rep rules, principles
- Examples: John Lewis

Meet the Speakers

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Property Newsletter – Autumn 2022

In this Autumn edition of the Property Newsletter, [Rachael Spalton](#) questions if now is the right time to invest in renewable energy, and [Shabnam Shekarian](#) asks whether the private rent sector is really 'levelling up'. [Victoria Sandberg](#) discusses the current options for landowners in response to the loss of the Basic Payment Scheme. This hot topic may be subject to more change with rumours of an imminent government announcement – follow us on Twitter [@Longmores_rural](#) and [@Longmores_prop](#) to keep up to date. [Richard Gvero](#), Joint Senior Partner and Head of our Employment team, also shares a Q&A on how to protect your business with restrictive covenants.



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Commercial Newsletter – Summer 2022

In this Autumn edition of the Commercial Newsletter, [Richard Gvero](#) discusses restrictive covenants in employment contracts, [Michael Budd](#) shares some insight on whether the Register of Overseas Entities is fit for purpose and [Miranda Mulligan](#) considers if redundancies are inevitable for struggling businesses. [Rachael Spalton](#), Partner and Head of Commercial Property, discusses the hot topic of whether now is the right time for landowners to invest in renewable energy generation.



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