

Managing the fundraising process

Hard cash, whether in the shape of banks, private investors, venture capitalists (VCs) or a flotation, is usually the main objective of any fund raising exercise. However, there are many other ancillary benefits to be had by the business that addresses the process thoroughly and efficiently, as Richard Hall, partner with HW Corporate Finance explains

Embarking on a fund raising exercise means you are doubtless focused on hard cash and perhaps an associated acquisition. But aside from the obvious financial rewards, there are other factors that can give a company significant return on the time and money they invest in a fund raising exercise.

The financial aspects are what drive businesses to begin fund raising, with common reasons given including providing funds for expansion and strengthening the balance sheet.

But what are the non-financial benefits that can be maximised alongside these? Whilst these can vary slightly depending on the route chosen, there are a number of benefits common to each. Typically a business can raise funds from investors such as banks, private investors, venture capitalists or through issuing shares openly on markets such as AIM.

In each case a business will need to produce certain documents outlining the nature of the company, the benefits to investors of supporting it and the risks involved. All of these can prove extremely useful in highlighting both existing and potential issues within a business, allowing management to develop a strategy to address them.

The production of a business plan is the first step in attracting funds. A good adviser, with knowledge of the due diligence process, will bring expertise in the construction and presentation of this, but fundamentally the biggest benefit can be the 'helicopter' overview of the business from an external perspective. Flagging potential issues that may arise in advance of due diligence or meetings with investors and giving advice on how to tackle or overcome these can prevent them from becoming a limiting factor at a later date.

Similarly due diligence or Long Form Reports may highlight issues not readily apparent, such as an over-reliance on individual suppliers or customers. Management can then devise a strategy to reduce this risk going forward, whether by dual sourcing supplies or marketing to a different geographical or market sector.

Other risks that might be identified include the need for signifi-

cant working capital facilities to support a particularly seasonal business. A recent example of the steps that can be taken was the decision by Dainese, the specialist motorbike-focused maker of body armour, to develop a winter market by targeting snowboarders and skiers, thus de-risking the business and increasing its value.

In addition, HW Corporate Finance recently assisted Pi Capital with a review of a communications-based business and, in particular, the level of competition it faced. By identifying potential competitors at an early stage, the management team was able to pursue possible sales channels with a more targeted approach. Furthermore Pi Capital was able to focus and assess the real commercial risks from its network of investors before making the investment.

So what advantages are specific to securing funding from VCs? As part of the process VCs will interrogate the strength of the management team and identify areas requiring further expertise. This can be added on a full or part-time basis and in an executive or non-executive capacity and working with VCs will give access to suitable personnel. More generally, it can expand a company's presence and give access to a variety of new contacts, businesses and markets.

For example, when HW Corporate Finance recently worked with Partners For Growth, which was investing in an early stage medical sector company, one of the key drivers in securing the deal was the depth of contacts and knowledge available through its investors.

Similarly a VC may offer links into a network of portfolio companies in the same or related sectors. Not all VCs are equally proactive in this area however, so if this is a key consideration, careful selection is required.

VC funding will typically look at a three to five year timeframe, at the end of which they will want to see a significant return. Exit strategies are therefore an important factor in securing funding. VCs will be looking at ways to realise their investment and will be seeking a business with a well thought-out plan setting out how they can increase the value of the business and maximise the ultimate exit.



Richard Hall, partner, HW Corporate Finance

Working with advisers at an early stage should assist the identification of potential acquirers (either in terms of general type or specific companies) and market trends. Grooming the business toward these options will increase its value and enhance the negotiating position on exit.

Areas for consideration depend on the specifics of the business, and may include:

- Geographical coverage of the market – can value be improved by creating the best fit (Morrison's acquisition of Safeway was largely driven by the different geographic strengths) or can more value be gained by being on their doorstep (common in retail where big retailers tend to congregate in the same parks to build custom) so that the competition can be eliminated by the ultimate acquisition?
- Customer base – identifying and marketing to those that would be an attractive proposition for a buyer, which may not necessarily be the highest spenders, and could include customers generating recurring long-term or higher margin revenue rather than one-off purchases
- Product set – by examining trends within the market a company can identify the need for horizontal or vertical integration and develop an associated acquisition plan which could maximise value by restricting the ability of competitors to tap into gaps in your offering to your customers

So what are the additional advantages specific to a market listing such as AIM? Companies listed on a public exchange are often perceived as having greater stability and assumed to be of a certain size. A flotation can raise the profile of the company, attract greater investment and gain confidence from both suppliers and customers alike. However, whilst these are often quoted as the key drivers, greater benefits can be realised in some other areas:

A service sector business where employees are the key driver of revenue, for example, may be able to offer a far more tangible share option incentive, enhancing staff retention. (Whilst options are also available where venture capital funding is introduced, the shares will usually be less liquid and hence less easily valued).

If further expansion is anticipated through acquisition, the ability to use shares as currency within transactions will also increase, as the shares become more liquid and hence more like cash.

There are therefore considerable advantages to be had from a well thought through funding process. Working together with advisers through this process can enhance the value of a business by helping to shape its future strategy and direction.

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