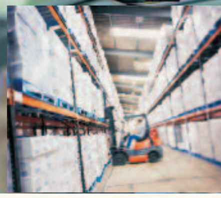
Equity Linked Finance

Equity Linked Finance FAQ's



1. How much can a company raise?

- Loans and investments are available from £100k to £1.2m.
- Loans and investments can be agreed in advance and taken in tranches over a period of time as required.
- We may be able to make a second round of investment up to an aggregate amount of £2m investment per company.

2. Who can apply?

- We want to support companies who are viable, growing and capable of making the repayments and returning the investment in full.
- Companies must have the majority of their sales to other businesses rather than directly to the consumer.
- A wide range of sectors can be supported especially those involved in manufacturing; food and drink; chemical; bio science; healthcare; creative and digital industries; environmental technologies; financial and business services; and sport.
- Companies must be based in, or be moving to the Yorkshire and Humber region.
- If based in North Yorkshire, West Yorkshire, East Yorkshire or some parts of Humberside, the business must be an SME with fewer than 50 employees.
- If based in most parts of South Yorkshire or some parts of Humberside (known as 'Assisted Areas') the business must be an SME with fewer than 250 employees.
- Check here to see if your postcode is in an Assisted Area **Click here**

3. What can the money be used for?

- **Growth capital** – product development, new market penetration, new processes.
- **Capital expenditure** – purchase of capital assets.
- **Working capital** – stock, work in progress, sales development.

4. Do I have to give you shares in my company?

No, you don't have to give us shares but we will buy shares from the company.

Every deal is structured to give maximum benefit to the company over an agreed period of time. There are a variety of ways that a deal can be structured such as:

a) We buy new shares in the company and we are repaid when the company is sold or refinanced in a few years' time. This is known as a pure equity deal.

b) We buy some shares in the company but also make a loan which the company repays over an agreed period of time.

c) We make a loan to the company which it repays at some future time, with some of the interest 'rolled up' and repaid at the end together with some sort of 'redemption' premium based on the success of the business. This is typically referred to as 'mezzanine' finance.

5. What is the process?

After checking your eligibility and outline proposal we will ask you to submit a detailed business plan together with copies of your latest annual accounts, up-to-date management accounts, cash flow forecasts and CVs of the management team.

A member of the Finance Yorkshire Equity team will meet with you to discuss your proposal.

The proposition will be submitted to our investment committee for agreement in principle. This usually takes a maximum of two weeks from receiving full details.

On receiving in-principle agreement we will undertake due diligence to check the information which you've given us, to test the assumptions you've made and to verify other documentation.

Assuming everything is in order we will then discuss with you the best structure for the funding package which could be pure equity funding, loan funding or a combination of loan and equity. The structure is the best one for your particular business depending on whether the company will be generating excess profits immediately or not for a period of time.

We will also discuss with you the terms under which the Fund will invest, for example, how many shares we wish to purchase, the price of the shares or what the interest rate on the loan will be.

6. How do I know if a loan or equity investment is better for the company?

We will discuss with you the actual structure of the deal. The structure depends on a number of things including the nature of the business, the risks involved, the strength of the management team, the likelihood of the company achieving its forecast sales, the level of profits generated from the start, the ability of the company to repay the loan each month, and the likelihood of a trade sale or other exit route in years to come.

7. How does it work?

7.1 Pure equity investments:

Following formal approval and legal documentation, the Fund purchases a proportion of the shares in the company in exchange for a lump sum.

The number of shares purchased by the Fund depends on the agreed valuation of the business but is usually in excess of 15%. The Fund will never take a controlling interest in your company.

The aim is that management then grows the business over an agreed period of time, such as three years, with the aim of selling or refinancing the business at the end, in order that Finance Yorkshire can sell its shareholding.

7.2 Combined equity investment linked with a loan:

In addition to the equity investment, Finance Yorkshire may lend the company part of the funds via a loan arrangement. This enables the company to reduce the debt over a period of time.

For example:

	Equity Investment	Loan	Total
Company X	£250,000	£850,000	£1.1m
Company Y	£600,000	Nil	£600,000

Funding to grow.

8. Do you take security?

We do not expect to take personal guarantees from the directors.

When equity is linked to a loan we may take security, if it is available, depending on the structure and the risk. If we take security it will reduce the interest rate we charge the company as our risk will be reduced.

9. Will you put someone on the company's board?

We will often place a non-executive director who is commercially experienced and who can help you to grow the business.

10. What are the costs involved?

Everything depends on the nature of the deal, the complexity of the deal and the perceived risks. The greater the risks involved the greater the cost of funds:

10.1 On an equity-only deal:

- Arrangement fee - 3%, charged upon completion of the deal.
- Due diligence fees - these depend on the quality of the information provided and the simplicity of the structure and the deal - minimum £5,000 (charged at completion of the deal).
- Monitoring fees - typically 1% of funds - minimum £5,000 per annum (ongoing).
- Non-executive director fees - minimum £10,000 per annum (ongoing).

10.2 On an equity and loan deal:

- Fees as above plus:
- Interest which can be charged in a number of ways, depending on the nature of the business, the risks involved and the level of profits being generated by the business.

  For example:
  - Interest charged and paid quarterly,
  - and/or interest rolled up to the end of the period (we only actually charge the interest on the last day when the loan gets repaid),
  - and/or a redemption premium (a fee charged on ultimate repayment of the loan) and paid as a balloon payment.

10.3 Examples of how fees may be charged under a loan arrangement:

		Company A	Company B
Interest charged and paid quarterly		7.5% pa	10% pa
Interest rolled up to the end	and	7.5% pa	10% pa
Redemption premium		Nil	£10,000
Equity Warrant (see Q13)	and	Right to subscribe for 7.5% of the issued share capital	Right to subscribe for 3.5% of the issued share capital

11. Can the money be invested in phases?

Depending on the nature of the business we can make phased or tranched payments. This is often based on the company achieving specific milestones such as the company winning a particular contract or achieving a particular level of turnover or profit.

12. How long will it take for the company to get the finance?

It depends on how quickly we receive good clean information, how complicated the business structure is and how easily we can come to an agreement regarding the structure of the deal and the cost of funds.

For a well-structured company with good financial reporting processes, good contractual documentation, a good management team, and which is trading in an easily understandable business sector then we can turn around a request for finance relatively quickly and would hope to make funds available to the company within three months. If we have to wait for information that we request such as business plans, copies of contracts, copies of management accounts etc. or if the business has a very complicated structure then it can take several months more.

13. What is an 'equity warrant'?

An equity warrant gives Finance Yorkshire the right to purchase a specific amount of equity in the company at an agreed price, and which would only be taken up in the event of a sale or exceptional circumstances.

14. What is meant by 'cost of funds'?

This is the total cost to the business of taking the finance, so a total of interest, arrangement fees, due diligence fees, etc.

15. What are covenants?

In the final legal documentation the company and directors will agree to a variety of covenants. These are conditions that we discuss and agree with you in advance that enable us to monitor the business. The covenants depend on the nature of the business, the type of deal agreed and the perceived risk, but may include items such as:

- Management accounts must be produced monthly within 30 days of every month-end.
- Statutory accounts must be produced within three months of each year-end
- Additional directors will not be appointed without approval of Finance Yorkshire
- The company will not sell shares without prior approval of Finance Yorkshire
- The company will not issue a dividend, over a certain level, without prior approval of Finance Yorkshire
- The company will undertake not to incur additional debt over a certain level.

www.finance-yorkshire.com

Tel. 0845 649 0000 info@finance-yorkshire.com

1 Capitol Court, Capitol Business Park,
Dodworth, Barnsley, S75 3TZ

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