



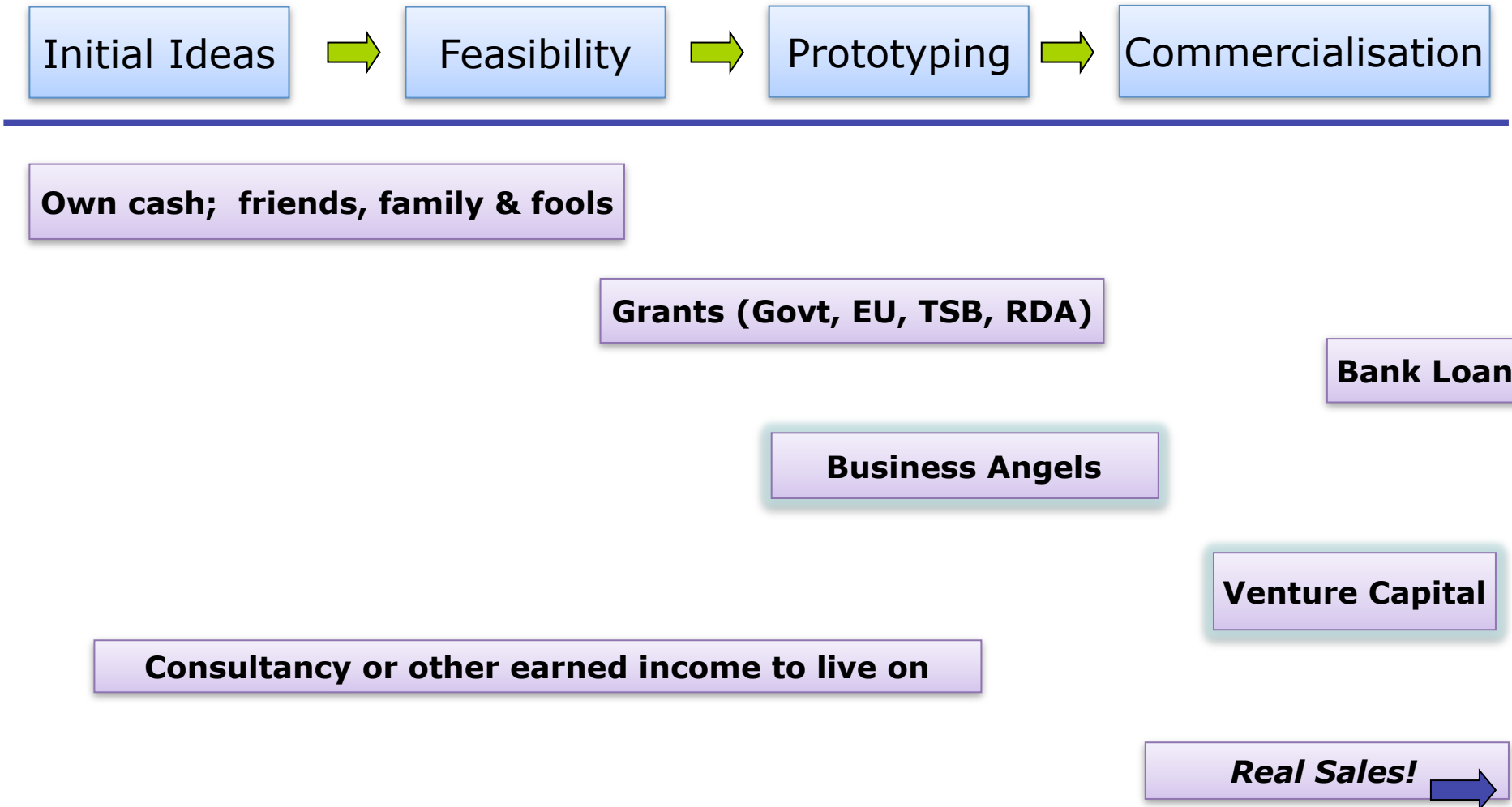
ST JOHN'S INNOVATION CENTRE

# Raising Finance

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# Funding Escalator – Current Climate



# The Pros & Cons of Grant Funding

## The good things

1. It's money
2. You don't have to give it back (except in default)
3. You don't have to surrender equity

## The not so good things

1. Most schemes won't suit you
2. Applying takes time and effort (and money!)
3. Only available for future activities, not past ones
4. Cost reimbursement only likely to be 50% or so

**Grants are available but can be complex.**

**Expert guidance is advisable.**

**But to give a flavour, some examples follow...**

# National Grants

Technology Strategy Board

<http://www.innovateuk.org/>

New grant for R&D due to be announced in April.

See “competition” announcements:

- Metadata production
- IED threat awareness
- Health of people with long term conditions

Collaborative R&D or SBRI (typically technology, military or health)

# Initial source for national, regional and local grants

See [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

- Finance and grants
  - Choose the right finance
    - Business Support Finder



# Knowledge Transfer Partnerships

**Graduate placement scheme, part-financed by a Government grant**

1. Graduate Associate (NVQ level 3 or above) is employed by the knowledge base partner but work in your company.
2. Typically two thirds funding for an SME, 50% for a large company.  
Average annual contribution by an SME £20k
3. “Classic” KTP typically 1-3 years
4. “Short” KTP typically 10-40 weeks

[www.ktponline.org.uk](http://www.ktponline.org.uk)

# 7<sup>th</sup> Framework Programme

## Grants for trans-European collaborative R&D projects in specific technology/application areas

1. Open to a wide range of organisations and individuals. Minimum requirement in most cases is 3 partners from 2 countries – but typically more needed for successful bidding.
2. Typical project duration 2-5 years, typical budget hundreds of thousands or millions.
3. Standard reimbursement rate for R&D projects is up to 50% but SMEs can sometimes get up to 75%.
4. Calls for proposals appear regularly – check websites for details

<http://www.bizmapeast.co.uk/finance/european-funding/>

# R&D Tax Credits

**Not a grant scheme but corporation tax relief**

1. For companies of all sizes with at least £10,000 in qualifying R&D revenue expenditure.
2. Allows 175% (SMEs) or 130% (large companies) of R&D expenditure to be deducted for tax purposes. Some SMEs not in profit can surrender their R&D tax losses for cash.
3. State aid or subsidies can reduce the amount of eligible R&D expenditure or deduction percentage, sometimes to zero.
4. For capital R&D expenditure 100% capital allowance may be allowed.

[www.hmrc.gov.uk/randd/](http://www.hmrc.gov.uk/randd/)

# The Nature of Debt and Equity

## Equity

- Money 'owned' by you or the business (therefore doesn't have to be repaid)
- Money invested in a business in return for an ownership stake
- Pure 'risk' capital
- Return to shareholders via sale of shares and/or dividends

## Debt

- Money 'owed' by you or the business (therefore has to be repaid with interest)
- No ownership stake by lender, but loans are usually secured against an asset
- Loans are not risk capital
- Return to lenders via repayment of principal, plus interest

1. **Most UK start-ups are funded entirely by the personal savings**
2. **NET bank lending is still DOWN, so how do you convince the bank?**

# Bank Funding – 2010 Snapshot

Step change since 2008

- Unlikely (ever) to revert to *status quo ante* of easy debt

Decrease in net lending

- Banks prefer established firms, tangible security
- Old debt repaid as new debt taken on?

Margins doubled from 3% to 6% for smaller firms

- Commitment and renewal fees enforced (1%+)
- Self-censorship by (non-) applicants: ‘why bother with banks’?

Need for increased sophistication by borrowers

- Use of ‘alternative’ products: leasing, factoring...

# Business Plans – for Banks

- 1 page summary
- Business background – products/market
- Management team and experience
- The peak requirement
- P & L and Cash flow – with assumptions
- Competitive position
- Evidence of ability to service all borrowings in the business Risk and security available

# Definition of a Business Angel

*“An individual, acting alone or in a formal or informal syndicate, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, takes an active involvement in the business, for example, as an advisor or member of the board of directors.”*

Prof Colin Mason and Prof Richard Harrison, 2007

**Angels currently investing 3x more in early-stage than Venture Capitalists**

# What Angels Might Invest

## Amount: Rules of thumb

- Individuals £10,000 to £50,000
- First round syndicate: £250,000
- £500,000 over 3 rounds, EXCEPTIONALLY £1M in total

## Issues for later funding rounds

- Stand-off with venture funds (crush-down)
- Angels running short of fire power
  - Few exits for 3 years
  - Need to look after existing portfolio (3-4 rounds)

# What Angels Are Looking For

## Team, Product, Market, Sector, Profits, Exit...

- Investors back people, range of abilities; fill gaps
- Exceptional growth prospects? Sector, timing
- Protection – not just IP! Know-how, first-mover gains
- Stage: more than just an idea; prove yourself first
- Explain *business model*: where you fit, how you make ££
- Investment readiness of business ... and people
- Valuation now and at exit
- What happens when you need more money??

# Understanding Finance for Business Programme

Raising Finance

- Half-day “Raising Finance” workshops

Specialist whole day workshop

- Bank, equity or grants

Possible 1-2-1 mentoring for well developed opportunities

- Material difference in raising significant funds
- View from other side of desk

Pitching panels - including dry run before real investors

Finance resources [www.stjohns.co.uk/finance](http://www.stjohns.co.uk/finance)

Blog [www.finance4businessblog.co.uk](http://www.finance4businessblog.co.uk)

# Raising Finance Workshops

5 April 2011	Beds & Luton Chamber Commerce
7 April 2011	<u><a href="#">Ramada Norwich, Norwich</a></u>
10 May 2011	<u><a href="#">Pontlands Park Hotel, Chelmsford</a></u>
17 May 2011	<u><a href="#">St John's Innovation Centre, Cambridge</a></u>
2 June 2011	Hethel Engineering Centre
7 June 2011	<u><a href="#">Ramada, Hatfield</a></u>
9 June 2011	<u><a href="#">IP City Centre, Ipswich</a></u>
	<u><a href="http://www.stjohns.co.uk/finance">www.stjohns.co.uk/finance</a></u>

# Specialist Workshops

## Focus on Bank and associated funding – Full Day

13 April 2011  
30 June 2011

Pontlands Park Hotel, Chelmsford  
Hethel Engineering Centre, Norwich

## Focus on Grant funding – Full Day

22 March 2011  
19 May 2011

Pontlands Park Hotel, Chelmsford  
Venue t-b-c, Herts

## Focus on Equity funding – Full Day

18 May 2011  
Cambridge

St John's Innovation Centre,

# Keep in touch

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# Questions?

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