

Funding the Company

Getting your business funded properly is fundamental. Throughout its lifetime a business will require different types of finance to meet differing needs as it develops.

Types of funding

Funding typically divides into debt and equity. Debt is monies that are borrowed and have to be repaid. Equity broadly constitutes funds that are invested in a company with a view to profiting from that company's growth – whether through dividend or an ultimate sale of the company's shares.

Sources of funding

Equity

Equity means shares in a company that are given in exchange for an investment in a company. These are different types of shares that can be issued to meet the requirements of the company, but generally the shares issued are called ordinary shares.

The first investors in a business will typically be the business founder and could include his or her 'friends and family'. It is important that the terms of these sorts of investments are put in writing (shareholders' agreements).

Subsequent rounds of equity funding could come from sources such as business angels venture capital trusts or venture capitalists. All of these will be looking to invest in a business with significant potential for growth and will be expecting an exit within the short to medium term.

Business Angels

Business angels are individuals who typically have experience in business and are looking to invest (either individually or in a consortium), amounts typically between £5,000 and £250,000 into rapid growth companies. Some angels will get involved on the board of the company, providing the benefit of their experience.

Venture Capital

Venture capital houses can provide significantly more funds than angels. However they will typically want to invest in companies that are at a later stage than business angels and will usually want to see evidence of projected or actual revenue, as well as a business with good prospects for growth. Because of the size of their investment, you can expect them to want a seat on your board. They will also make available their business expertise which will also help to strengthen your business, although inevitably this will come with an additional pressure for growth and profits.

Debt

Bank loans and overdraft

Banks are the primary source for debt-funding. Apart from the traditional bank loan and overdraft they offer a range of financing products. In providing debt finance they will require some form of security for their lending which will generally take the form of a charge over the company's assets. If the company does not have sufficient assets for security the bank will seek security from the company directors' personal assets.

Providing your company satisfies certain criteria including the ability to demonstrate reasonable expectations of growth it may qualify for a loan under the DTI small firm's loan guarantee scheme arrangements. Briefly, funds of up to £250,000 can be provided via the bank in situations where there is limited or no security available from the company or its directors.

Factoring and invoice discounting

Factoring and invoice discounting provide you with finance against invoices your customers have not yet paid. Typically you can receive up to 80% of the value of the invoice immediately and the balance (less costs) when the

customer pays. In factoring, the factoring house manage your sales ledger. Under invoice discounting you retain control.

Hire purchase

This is used to finance the purchase of equipment. Your business buys the equipment but payments of capital and interest are spread over a period of up to five years.

Leasing

This is a method of financing equipment you do not need to own. It is often used for vehicle finance. The equipment is rented rather than owned and the rental payments spread over several years. There can also be the option to fix maintenance costs as part of the agreement (contract hire).

How we can help

We have expertise in all types of fundraising from the earliest stages up to venture capital.

For further information about James Cowper and how we may be able to assist you, visit www.jamescowper.co.uk

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