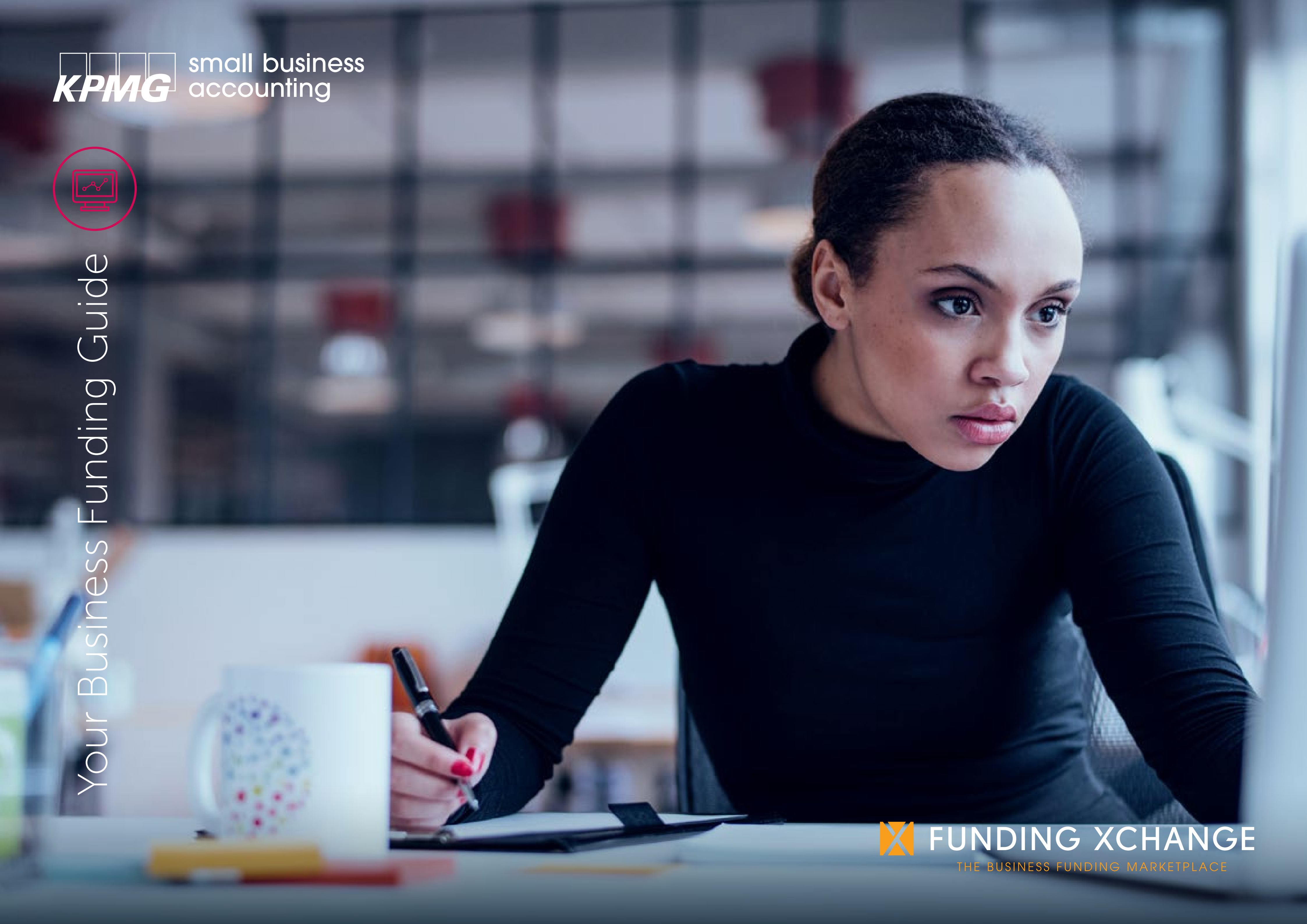
KPMG small business accounting

Your Business Funding Guide



FUNDING XCHANGE
THE BUSINESS FUNDING MARKETPLACE

Access the right funding

You've had this brilliant idea that solves a problem or adds value for customers. You've just won a big contract and now need to increase your stock levels.

You've grown your business over the last few years and are looking to expand into a new market. Finding funding is the next step in turning your plans into reality and growing your business.

Access to the right funding is crucial to the success of your business, but with so many options available obtaining funding can seem complex.

Options range from traditional sources such as loans and equity finance to newer forms such as accelerators and crowd funding.

As a KPMG Small Business Accounting client, you'll be ahead of the pack when it comes to accessing funds. You'll be pre-approved on our funding platform so you can raise funding as quickly as you need to.

We'll also help you navigate through the maze of funding options, and pull together the information you need for lenders and investors.

FUNDING XCHANGE cuts through the noise and gives you the information you need to identify your best funding option.


60% of SMEs considered only one provider when seeking lending

Contents

Your funding types

Your funding options depend on a number of factors, including the nature of your business, your ambitions, your business' growth stage. Funding options suitable for mature businesses probably don't work for ambitious start-ups.

Here, we provide our perspective on which funding options could be appropriate at different growth stages. This will enable you to zero in on the best options for your circumstances. It is then easy to skip to the relevant parts of the guide, and get the information on the funding that you need.

Your funding types

Start-Ups
In business for less than 2 years

- Startup Loans
- Fast Business Cash
- Merchant Cash Advance
- Asset Finance
- Business Angels
- Equity Crowd Funding
- Accelerators
- Rewards-based Crowd – funding (e.g. Kickstarter)
- Trust/Grants/Tax incentives

Growth
Company growing at 15%+ per year

- Fast Business Cash
- Invoice Finance
- Merchant Cash Advance
- Trade Finance
- Peer-to-Peer Lending
- Asset Finance
- Secured Loans / Bank Loans
- Unsecured Loans
- Overdraft/Flexible Line of Credit
- Business Angels
- Equity Crowd Funding
- Venture Capital
- Mezzanine Debt

Established
Large corporate business

- Invoice Finance
- Merchant Cash Advance
- Trade Finance
- Peer-to-Peer Lending
- Asset Finance
- Secured Loans/ Bank Loans
- Unsecured Loans
- Overdraft/Flexible Line of Credit
- Mini-Bonds
- Mezzanine Debt

Key
- Debt/Loans
- Equity
- Other

Equity

Equity finance means that you are selling shares in your company to inject funds. Equity finance is typically used by fast growing companies to finance investments that have a longer term return. Equity investments are typically available to the company for the long-term and, unlike debt finance, are not paid back.

In return for the equity investment, the business usually gives certain rights to shareholders. This can include making annual payments to shareholders, rights to be consulted on key decisions or represented on the company's board. Investors can also help you grow your company, and some may be willing to provide mentoring and other support.

Raising equity finance requires you to identify and pitch to investors which will take time. In order to be credible, you need a robust business plan, including financial projections that are backed up by market research or initial successes. You'll typically need to "sell" your concept and convince investors that you'll generate a significant return on the capital invested. Equity finance takes different forms at different stages of the company's life.

Seed funding

This is needed for product development, setting up operations, market research, etc. Typical seed funding ranges from a few thousand pounds from Friends & Family to £500,000 from angel investors.

Early-stage funding/Series A

This comes into play once you're close to taking your product to market. It can be broken down into multiple rounds if needed and tends to involve angel investors and perhaps venture capital firms (VCs).

Expansion-stage funding

Once you've taken your product to market and validated your business model, the next step is to expand. This is similar to early-stage funding, but tends to come from VCs and private equity firms (PEs) who are usually interested in more established businesses.

Loans

Taking on debt means that you are retaining your ownership of the company – but also means that you are not sharing the risk for growing your business with other investors. You will have to repay loans or other forms of debt according to an agreed schedule.

Many start-ups or very young companies struggle to get access to loans as lenders want to see track record that ensures the company can payback the loan or want to see that the company has assets that can be used as security.

But do not despair, the Government has set up Start-up Loans Company to provide access to low-cost loans of up to £25,000 for young companies. You can find out more at www.startuploans.co.uk

Loans typically carry interest on the amount borrowed. How much interest you pay depends on factors like how long you need the money for, whether the loan is 'secured' against assets you own, or other broader economic factors, like the Bank of England base rate.

Even if your business is more established, you might find it difficult to access a bank loan. Five years ago, when high-street banks provided around 95% of business lending, businesses didn't need to be aware of other forms of loan finance. Today, up to 50% of loan requests are being rejected by banks. More than 100 alternative funders have stepped in to fill the gap, ready and able to lend in many different ways.

Alternative funders tend to be more flexible than other lenders. They are not regulated in the same way and do not have the same constraining capital requirements. These lenders have been finding new ways to assess business risk, reduce the operational cost of underwriting and insure risk. They are making it possible for many more businesses to be funded on attractive terms.

Product options range from familiar unsecured loans and overdrafts to innovative solutions like invoice finance and merchant funding. In addition, P2P lending platforms, such as Funding Circle, Rate Setter and ThinCats, also offer loans to businesses. The difference is that the loan is typically funded by many individuals ("the crowd") rather than traditional forms of funding (e.g. deposits and wholesale funding).

FUNDING XCHANGE helps you navigate these options and make the best of alternative funding innovation.

Funding Options

Available Loan Funding Options

What many business owners don't know is that there has been a lot of innovation in new lending products.

These products give businesses access to working capital in many different ways, allowing you to find options that match your needs and provide the flexibility your business requires.

Fast Business Cash
Injects cash when you most need it

Invoice Finance
Draws money against invoices before customers pay

Merchant Funding
An advance on predicted sales or credit card sales

Flexible Line of Credit
A flexible line of credit for use on demand

Unsecured Term Loan
A fixed period loan with monthly repayments

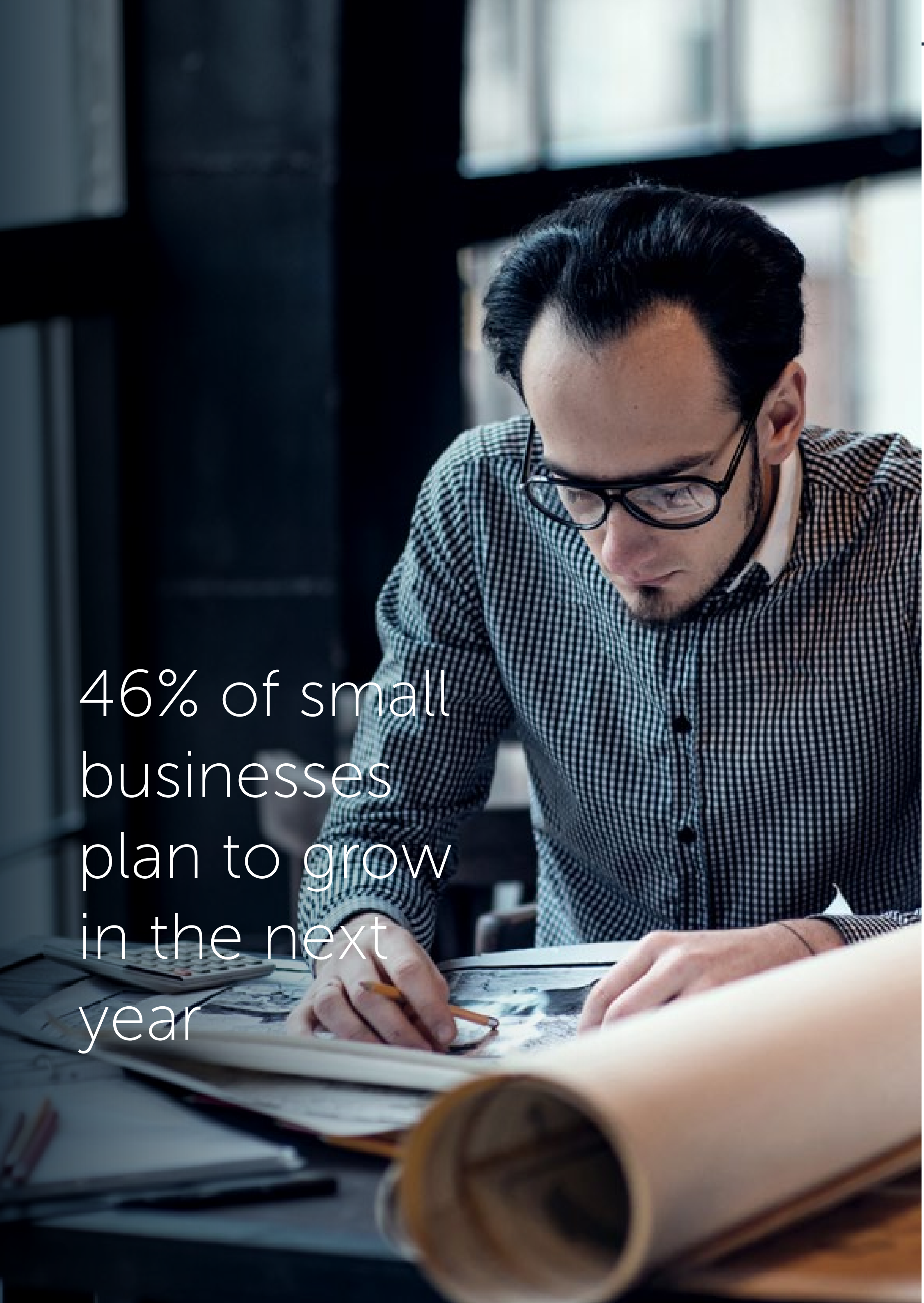
Secured Loan
Provides funds secured against business assets

Start-up Loans
A government funded scheme offering loans and mentoring

CDFA
Funding when commercial loans are not available

Eligibility for Loan Funding Options

Typical eligibility criteria	Good credit record	Debit / credit card sales	Assets that could be provided as security	Net assets / equity in the business	At least 3 months of revenue
Fast Business Cash	Not typically required	Not typically required	Not typically required	Not typically required	Typically required
Invoice Finance	Your debtors need a good credit record	Not typically required	The invoice is the asset	Not typically required	Typically required
Merchant Funding	Not typically required	Typically required	Not typically required	Not typically required	Typically required
Flexible Line of Credit	May be required	Not typically required	Not typically required	May be required	Typically required
Unsecured Term Loan	Typically required	Not typically required	Not typically required	May be required	Typically required
Secured Loan	Not typically required	Not typically required	Typically required	Typically required	Typically required
Start-up Loans	Not typically required	Not typically required	Not typically required	Not typically required	Not typically required
CDFA	Not typically required	Not typically required	Not typically required	Not typically required	Not typically required



Accelerators

Accelerators combine seed capital and mentorship – often in a 3-6 month programme that may culminate in a "demo-day" where start-ups pitch to investors.

Some accelerators offer free working space and mentorship support, instead of capital. In some cases, they are backed by large corporates who are interested in tapping into the innovative ideas.

LONDON BASED
Seedcamp
Provides startups with seed money, mentorship, office space and support over a yearlong programme.

TechStars
Mentorship-driven startup accelerator.

Escape the City
Helps talented professionals escape unfulfilling jobs and forge exciting, unconventional career paths.

Level 39
Europe's largest technology accelerator for finance, retail, cyber-security and future cities technology.

Enterprise Nation
A supportive community of business owners, expert leadership and a campaigning voice.

OUTSIDE OF LONDON
Oxygen Accelerator
(Birmingham)
For entrepreneurs with an idea looking for 1:1 mentoring to build and validate their business.

Ignite 100 (Newcastle-upon-Tyne/London/Manchester)
Pre-seed stage business idea and access to follow-on seed investment after the initial investment.

Entrepreneurial Spark
(Various locations)
Non-sectorial, equity free business growth accelerator. Programme with workshops and development presentations.

Qi3 Accelerator (Cambridge)
For entrepreneurs who know they need expert and enthusiastic input from commercial and engineering teams, as well as financial capital.

Idea Alive (Manchester/Liverpool)
Part-time programme that does not take equity stake, and only works with solo founders/inventors.

Beta Foundry (Oxford)
All eligible for a package of benefits including: RackSpace cloud, Amazon Web Services, GitHub social coding, 99 designs, etc.

WebStart Bristol (Bristol)
For startups developing an app or web service and committed to build business in Bristol. Will assist with the whole business building process.

Crowdfunding

Crowdfunding has seen enormous growth in the past few years because it gives businesses the ability to pitch to the masses. If people pledge funds, they will probably buy your product too. Crowdfunding is best for those who can do without the mentoring or guidance that comes with other funding options.

Crowdfunders are alternative providers of equity who obtain funds from 'the crowd' (the public) rather than traditional sources like investors or wholesale markets. Using crowdfunders to raise equity can be quicker as it does not require you to find business angels and have many discussions until you secure an investment. It can also help you build up a instant group of "promoters" of your company or product – it is likely that those that have investors like your product and will want to help you succeed!

Rewards-based crowdfunding platforms, such as Kickstarter and Indiegogo, work differently. Instead of investing in exchange for equity, people pledge money in exchange for perks or products/services from your company.

It is a great way to validate your product and more and more businesses are using it as a marketing tool. As with equity crowdfunding, you only get access to the funds if your campaign is fully funded.

Kickstarter
Helps start-ups bring creative projects to life.

Seedrs
Helps fund raising from idea-stage start-ups to publicly-listed companies.

Indiegogo
Helps start-ups reach a global group of investors.

CrowdCube
Helps start-ups, early stage and growth businesses through equity, debt and investment fund options.

AngelList
Helps start-ups raise money from syndicates.

Your funding types

There are many more funding options than just bank loans and overdrafts – make sure you consider the types of funding that are right for the growth stage you are at.

Accessing funding doesn't have to be complex. Funding Xchange makes it simple, offering a wide range of finance options **www.fundingxchange.co.uk**

KPMG can help give you confidence in approaching potential lenders and investors **www.kpmgsmallbusiness.co.uk**

Debt/Loans | Equity | Other

Business Growth Lifecycle

Start-Ups
In business for less than 2 years

Available Funding:
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- Accelerators
- Trust/Grants/Tax incentives
- Business Angels
- Equity Crowd Funding

BORROW UP TO £25K

CAN TAKE 3-4 MONTHS TO ACCESS FUNDING

£ PAY FOR SERVICES

TAX INCENTIVES

Growth
Company growing at 15%+ per year

Available Funding:
- Fast Business Cash
- Invoice Finance
- Merchant Cash Advance
- Trade Finance
- Peer-to-Peer Lending
- Asset Finance
- Secured Loans / Bank Loans
- Unsecured Loans
- Overdraft/Flexible Line of Credit
- Business Angels
- Equity Crowd Funding
- Venture Capital
- Mezzanine debt

53% OF SOLE TRADERS DECLINED FOR BANK FINANCE*

Established
Mature businesses

Available Funding:
- Invoice Finance
- Merchant Cash Advance
- Trade Finance
- Peer-to-Peer Lending
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- Unsecured Loans
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! GOOD CREDIT RATING REQUIRED

LOW COST FUNDING

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Facts

60% of SME's only considered one organisation when looking for funding*

500,000 new businesses started every year**

46% of businesses are planning to grow in the next year**

* CMA Retail Banking Investigation - SME Follow-up Survey Results August 2015

** Small Business Finance Markets 2014

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