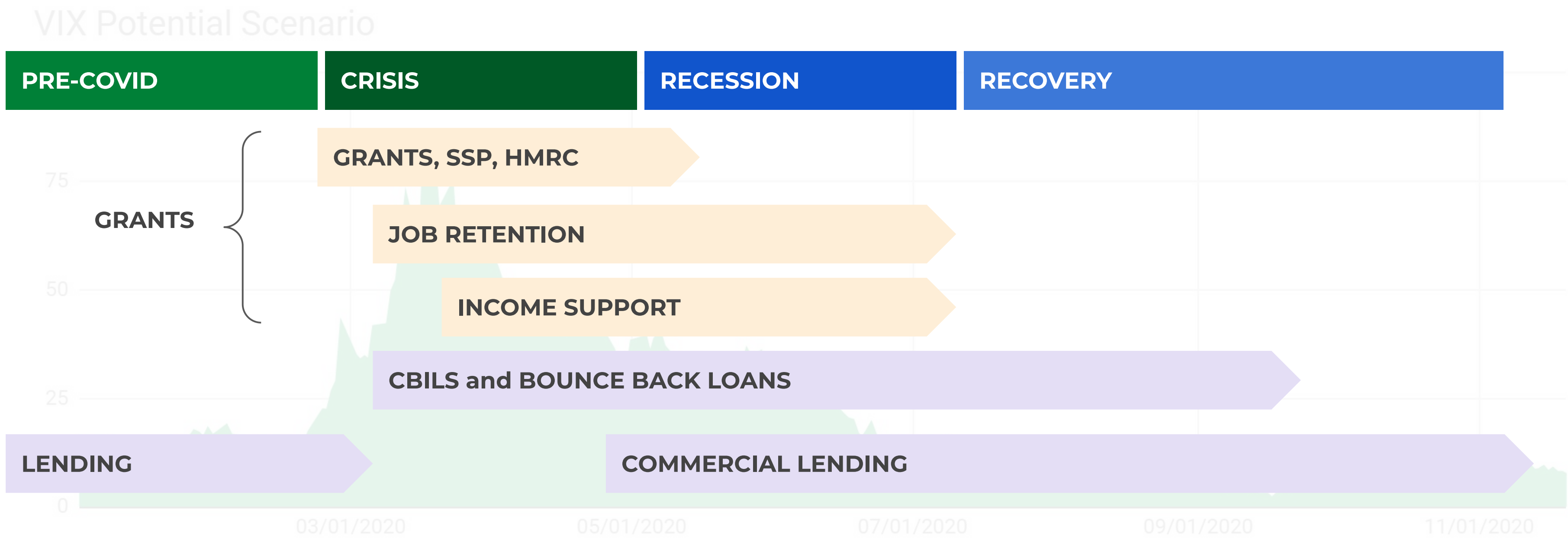
capitalise®

#LeaveNoBusinessBehind
An overview of the funding market

Products through and beyond



CBILS Marketplace

- What is is?
  - £50,001 -£5m
  - 25% of 2019 t/o
  - TL, IF, AF and RCF
- Who is providing it?
  - 103 accredited lenders
- What Information is required?
  - Banks - extensive
  - Alternatives - basics
- Is my business ‘viable’
  - 1.5-2x Retained Profit

Applying for Bounce Back Loans

22 lenders offering Bounce Back Loans.

As a lending product without an underwriter comes with lots of declarations!

- Engaged in trading or commercial activity
- Not part of a wider group which has received a Bounce Back Loan/ CBILS
- Not a bank or building society, insurance, public sector or individual in a partnership
- Not subject to a debt relief order or IVA, an undischarged bankrupt nor in liquidation
- More than 50% of revenues derived from my/our business' trading activity
- Use credit granted only to provide economic benefit to my/our business
- Not a business in difficulty on 31 December 2019 (e.g. debt/equity 7.5 & serviceability)
- Not have the benefit of the protection and remedies that would otherwise CCA 1974

See capitalise.com/covid19/bounce-back-loans

Programme success

16th June

	CUMULATIVE NUMBER OF APPROVED FACILITIES	CUMULATIVE £ OF APPROVED FACILITIES	CUMULATIVE NUMBER OF APPLICATIONS
Bounce Back Loan Scheme	1,013,410	£30,93 billion	1,240,701
Coronavirus Business Interruption Loans Scheme	53,536	£11.49 billion	107,309
Coronavirus Large Business Interruption Loans Scheme	394	£2.58 billion	783

Different Types of Lending

Merchant Cash Advance

MCA - What is it?

Non-essential shops have reopened

A product focused on:

- Leisure
- Retail
- Hospitality
- E-commerce

Merchant cash advance (MCA) is a product that has a long heritage in the USA, but launched more recently in the UK as alternative finance became more established.

IIf a business takes regular card payments from customers both through physical terminals or online, they may be eligible for a merchant cash advance.

Instead of a fixed repayment schedule, businesses repay part of the loan amount with each card payment, through the EPOS. This is known as a 'sweep' and ranges from 8 to 35% of the transaction value. The higher the sweep rate the quicker the debt will be repaid and vice versa. Clients and accountants must ensure that any sweep rate is taken into account when forecasting to ensuring it is serviceable.

This isn't a traditional loan, because the duration of the loan is not known (given the variability in daily takings), pricing is not via an APR but a factor rate. i.e. £100,000 a 1.15 factor means a fixed cost i.e. £100,000 * 1.15 = £115,000 giving complete transparency on the cost of the loan.

MCA - Pros & Cons

Pros of MCA:

- No fixed monthly repayment and the peace of mind of paying back more in busy months and less in slow months.
- The final repayment amount is fixed from the start, with completely transparent pricing
- Available to new businesses (only four months' trading required)
- Security is provided through the EPOS machine, i.e. no debentures.
- Flexible & scalable finance
- Can be in place in a couple of days, depending on the terminal provider
- Lends to sectors often overlooked by traditional lenders

Cons of MCA:

- Can be costly when compared to long-term loans
- Short finance term and so should not be used as a long-term solution
- If your business does not receive payments through either debit or credit card, or only a small percentage of sales are received through cards, then it is unlikely that you will be able to get funding of this type
- Can take 2-4 week on occasion to draw the funds dependent on the relationship between lender and merchant card provider

Property Finance Overview

Development Overview

DEVELOPMENT

Property Development is a complex sector which covers a range of products.

Development is either ground up projects or extensive structural work to existing property.

Debt quantums start at £500k - DD

Lenders typically fund up to 70% LTGDV (Loan to Gross Development Value) or 80% LTC (Loan to Cost) which can be drawn in stages or as required such as for initial land purchase.

PROS

- Highly flexible product to suit each individual development
- Lenders themselves can add value through their expertise - QS reports
- Enable large scale developments to take place with minimal client cash

CONS

- Interest rates can be expensive
- Extras such as valuations and legal fees can add up
- Experience is key
- Extensive DD can be required

Bridging Overview

BRIDGING

Bridging loans are ideal when a business needs fast access to finance, such as at auctions, small scale refurbishments or property 'flipping'.

It can also be used to inject cash into trading businesses.

Finally bridging is often used in development scenarios, notably to purchase land whilst waiting for planning permission or as a development exit to allow time to sell.

PROS

- Enables quick property purchases
- Flexible product - funds can be used for a variety of purposes
- All property types considered

CONS

- Expensive if required long term - need to have a clear exit strategy
- LTVs are usually 65% net as a maximum - this is not Mezzanine debt

Commercial Mortgage Overview

COMMERCIAL MORTGAGE

An excellent finance solution for purchasing a business property, or to raise capital by refinancing premises already owned.

Available across almost every business sector, the main requirements are that the business has enough funds to put down a deposit (usually 25%) and can provide evidence of clear serviceability.

PROS

- Often cheaper than renting
- Long term finance (up to 30 years)
- Very competitive rates
- Highly flexible solutions across capital & Interest, Interest Only, as well as both variable and fixed options.

CONS

- Usually requires a large 25-30% deposit
- Sector dependent appetite (care homes)

Buy To Let Overview

BUY TO LET LENDING

A BTL is specifically for people who buy property as an investment, rather than as a place to live.

At Capitalise we can help with every element of buy-to-let lending, from first time investors to established portfolio owners, from new purchases to refinancing as well as across residential, commercial and mixed properties.

PROS

- Allows clients to rapidly grow property portfolios
- Still tax efficient in ltd companies
- Highly flexible solutions across capital & Interest, Interest Only, RCF, partially amortizing loan as well as both variable and fixed options.

CONS

- Deposits of 25% as a minimum at present

Asset Finance

AF- What is it?

Lending Market:

This has remained quite open during covid as the debt is fully secured against the asset.

However given supply chain disruption and manufactures being closed or very limited there has been a period of pent up demand which is clear to see in the marketplace

Purchasing new assets is often an essential part for any growing or expanding business. However, cash flow can often limit the ability to purchase larger assets outright.

Outlying large, upfront payments for new equipment, tools and machinery can really affect the day-to-day running of a business but failing to invest can see a customer base suffer.

Asset finance can help businesses overcome this common pitfall. Lenders are able to either purchase the asset on behalf of the business, allowing the cost to be spread across affordable monthly repayments or simply lease the equipment for as long as it's needed.

Products - Hire Purchase

Hire Purchase enables you to acquire an asset while paying for it in instalments over an agreed timescale. At the end of the term, you have the option to purchase the asset outright.

Hire Purchase lets you spread the cost of your investment over the life of the asset, making it easier to budget. It is particularly suitable for acquiring vehicles, machinery and commercial equipment with a resale value.

Products - Finance Lease

Finance Lease arrangements let you use the equipment you need without having to buy it outright.

You pay the finance company rent for the full use of it. The rental period is flexible and can be tailored to your needs

During this period, you will pay the full cost of the asset, including interest. Then, when you reach the end of the lease term you can choose to continue to use the asset by entering a secondary rental period, sell the asset and keep a portion of the income from the sale or return it to the finance company.

Products - Operating Lease

Similar to a finance lease, an operating lease allows you to rent the asset from the finance company while you need it. The key difference between the two is that an operating lease is only for part of the asset's useful life.

This means you pay a reduced rental because the cost is based on the difference between the asset's original purchase price and its residual value at the end of the agreement.

You get full use of the asset for as long as you need it, without the burden of responsibility of disposing of it or recouping its residual value.

Invoice Finance

IF - What is it?

Trading up to pre covid levels - really important to understand a businesses working capital cycle and cash flow forecasts.

A PRODUCT FOCUSED ON B2B:

- Construction
- Manufacturing
- Engineering
- Wholesalers
- Transport
- Recruitment

Anything B2B where invoices/applications are raised.

Invoice finance is one of the most powerful funding products available in the market. With approximately £80bn of cash flow provision annually, it powers cashflow intensive businesses the length and breadth of the country. However by the number of SMEs, the penetration is tiny with approximately 40,000 businesses using it in the UK.

Invoice Finance as a product is simply when a business ‘sells’ an invoice to a finance provider. This can be a single invoice or the full debtor book. The finance provider will pay the business up to 90% of the value of that invoice upfront with the remainder being paid as per normal trading terms minus lender fees.

Products

INVOICE FACTORING

- 12-24 month contract
- Less established businesses
- Lender assumes all credit credit control
- All assets debenture
- Full/ Limited PG

SELECTIVE INVOICE DISCOUNTING OR SPOT FACTORING

- Individual invoices are sold to a lender at a discount to raise funds.
- Does not have to factor/discount entire debtor ledger
- Sometimes debenture
- Sometimes PG

INVOICE DISCOUNTING

- 12- 24 month contract
- Business maintains their own credit control
- More established businesses
- Can be confidential
- All Assets debenture
- Full/ Limited PG

IF - Construction & Transactions

IF - Construction

Construction Invoice Finance requires a specialist product due to the complexity involved in the contractual agreements between the various contractors and subcontractors involved.

- 12 - 36 month contracts
- 40%-60% Advance Rate
- Lower advance rates due to ‘contractual’ debt
- Able to raise money against applications for payment

IF - Transactions

Using Invoice Finance for Transactions such as Management Buy Outs or Acquisitions requires an understanding of the unique makeup of the business(es) and individual(s) involved, and the ability for a lender to use higher leverage than is standard for the product.

- 12 - 36 month contracts
- 90-100% advance rate
- “Overpayments”
- Cash flow loans alongside

IF - Pros & Cons

Pros of invoice finance lending:

- Fully flexible to suit the business requirements
- Often able to obtain far greater credit lines
- No tangible security required
- Sometimes no personal guarantee needed
- Debtor protection can be added for a fee
- By transferring the responsibility of credit control to the lender it can free up valuable time and money
- Debtors, as proven, are more likely to pay on time when lenders control ledgers or chase invoices
- New facilities can be drawn in a week to 10 days

Cons of invoice finance lending:

- Can take months to put in place (overseas/TF)
- Often (incorrectly) associated with failing businesses
- Can be expensive on a pure cost basis (not taking into account potential time/cost savings)
- Can be additional costs such as CHAPS for same day drawdown as well as re-factoring fee.
- Can be concentration restrictions
- Not suitable for those business with short debtor days

Thanks

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