

# UK Growth Finance for Start-up Founders

## What should you be thinking about?

Growth finance is complementary to equity investment and has a number of benefits to companies: fuelling growth it extends cash runway and provides flexibility without diluting ownership or control. It is often used to fund expansion, working capital, research and development, marketing initiatives and acquisitions.

### New to debt?

- **Types of Lenders** (this can include traditional banks, private banks, platform lenders and venture capitalists (usually following completed equity rounds).
- **Types of Debt** (some examples include):
  - (a) **Term loan:** fixed sum drawn in one or several tranches. Repayable in accordance with a schedule or at the end of the term.
  - (b) **Revolving debt:** maximum sum and 'loans' can be drawn and repaid during the term with their own interest period.
  - (c) **Overdraft:** ability to draw, repay and redraw up to a specified limit with interest charged on the daily overdrawn balance.
  - (d) **Revenue share:** repayments are tied to your sales based on an agreed percentage of revenue. This is shared with the Lender until the advance and a flat fee is repaid.

### Debt in place?

- Are your current terms suitable for growth plans?
- When is your current term up? Are there any fees to exit?
- Do you need ancillary facilities in addition to your current debt, for example overdrafts, credit cards, FX lines?

### Any questions? Get in touch



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### What you should discuss at HOT's stage

- Fees (e.g. arrangement, commitment, default and exit fees)
- Cash flow (how often do you repay interest and principal)
- Reporting (consider frequency/ content and if realistic/ disruptive)
- Restrictions (consider business plan notably restructures, acquisitions, disposals, investment, internal and external finance plans all current and future)
- Traditional banks will typically expect financial covenants, non-bank lenders may not. If included look at:
  - (a) testing (leverage/debt interest cover may not work for early stage. Consider liquidity tests, recurring revenue, cash burn and performance against budget instead); and
  - (b) timing, which entities the tests apply to, equity cures.
- Security expectations (are guarantees required? What assets do you own intangible and tangible).
- If a multi company group structure exists, identify where the value lies on day one.

### Third party considerations that might take time

- If you are considering a refinance, a consent, repayment and release process will need to occur.
- Investment, Shareholder Agreements or Articles of Association may require the consent of certain equity holders?
- Are your assets overseas?
- Are you in a regulated business? Secured finance may require consent from your regulated body (notably FCA for example).
- Is third party due diligence required to assess the company's assets (e.g a professional valuation or reliance letters)
- Lenders may ask for Key people/ founders to be tied into the business. Key man insurance may be needed.