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.