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Finding the sweet spot

The options available to companies wanting to fast-track growth are plentiful, but can be confusing. **Alex Bell** speaks to finance experts and ambitious companies to gain clarity

Data from the Geared for Growth 2022 report by high-growth business lender BOOST&Co suggests no less than four in five business owners are confident of achieving growth in the next 12 months. This is off the back of the region seeing a surge in equity investment during 2021, and with the current economic headwinds, represents a fascinating statistic.

Equity investment in smaller UK businesses hit a record £18.1bn last year, according to British Business Bank. This momentum has continued into 2022, with equity investment of £7.6bn in Q1 said to be the highest recorded in a single quarter.

So what does this mean for companies looking to scale at pace? How does one source the right type of finance? What are the options and just how bewildering is it when trying to combine such pivotal moves with day-to-day operations that have enabled businesses to reach the point of scaling potential?

Chris Mears, principal of BOOST&Co, says: "Accessing finance is more complicated and confusing than ever. The number of providers has exploded, while traditional bank finance has retrenched.

"Unless you consider the full range of options available, you are almost certainly not getting the optimal solution – and probably limiting what can be achieved. We still see businesses go direct to a single provider and therefore do not get to understand what the possibilities are."

Formulate a plan

Mears says the key to success is formulating a plan and ensuring you have a strong advisory team that knows the funding market well, as this enables full exposure to the market without absorbing huge amounts of management time.

> "It was clear we needed a partner who understood the needs of our company and could provide the support we required to scale."
>
> **Nicola Piercy**
> **co-founder, Stripe & Stare**

Sustainable female underwear brand Stripe & Stare entered into a £2.5m investment round with investor BGF providing £1.5m, and Richard Longhurst, co-founder of Lovehoney, and Sam Galsworthy of Sipsmith Gin among the private backers providing the additional investment.

The Devon-based business, whose products are made from a semi-synthetic modal fabric that's considered more environmentally friendly than more traditional materials such as cotton, was co-founded by friends Katie Lopes and Nicola Piercy in 2017.

Piercy says the type of investment Stripe & Stare received was always a key consideration in their growth plans. "It was clear we needed a partner who understood the needs of our company and could provide the support we required to scale," she says.

"There was synergy between Stripe & Stare and the selected investment team. With a focus on long-term, minority investment and experience of building successful ecommerce businesses, it was clear they were the right partners to help us evolve."

Bucking the trend

BGF investor Alex Garfitt believes businesses have better access to investment than ever before, but have to be patient and show they understand the future trends in their markets.

"There's still a lot of activity, but deals are taking longer," he says. "Valuations are softening, particularly for any businesses that are exposed to consumer spending.

"But bucking the trend are technology services and the energy sector, where we're still seeing high-quality businesses coming to market looking for investment."

Providing clear evidence of Garfitt's claims is Sennen, which has raised £780,000 equity funding from a range of new and existing investors and was recently awarded part of a £3.5m funding round from the UK's Offshore Wind Growth Partnership (OWGP).

Sennen's cloud-based, modular technology provides solutions for renewable energy companies, including offshore wind farm operators and infrastructure funds. Its clients include London Array, EDF Renewables, Arevon Energy and Foresight Group.

The Bristol-based Sennen team

> "We are right in that sweet spot of clean energy technology, which is an attractive proposition for investors."
>
> **Gaby Amiel**
> **chief executive, Sennen**

Gaby Amiel, chief executive at Sennen, says: "We are in the fortunate position of being right in that sweet spot of clean energy technology, which is an attractive proposition for investors.

"As the energy transition continues at pace, we look forward to being at the forefront of digital transformation in the renewables industry."

Jake Wombwell-Povey, of Vala Capital, adds: "The answer to the energy crisis has to be a dramatic and rapid transformation of our electricity generation to renewable energy. Sennen is a remarkable software platform that helps unlock these challenges and hastens our migration to clean, sustainable energy."

Driven by ESG

According to the CFA Institute, investors are increasingly applying non-financial measures as part of their analysis process to identify risks and growth opportunities in businesses prior to investing, and environmental, social, and governance (ESG) factors are becoming a major component in sourcing investment.

ESG-focused investment, according to Garfitt, is here to stay. "I think there might have been a period where it was in its infancy, and management teams were trying to understand what ESG meant," he says.

"But investors in particular are focused on the long-term risks to economic growth, resulting from companies overlooking issues such as climate change and social inequality, and from a financial perspective, if a management team has got an ESG strategy that will lead to stimulating customer demand, it will help attract and engage employees and lead to reduced energy costs and further cost savings.

"If you don't have an ESG strategy and your competitors do, you will eventually become disadvantaged. ESG investment is here to stay, and those who take it seriously will be rewarded. It's not something management teams can dismiss." ■

WHICH FINANCE OPTION WORKS BEST?

CROWDFUNDING

Rather than one or two major investors coming on board, crowdfunding is when a 'crowd' funds a project or business. It can come in four ways; rewards, donation, debt and equity.

Bristol-based All About the Cooks raised £326,531 from more than 200 investors – way above its £270,000 target. The company, an online marketplace for talented, trusted home cooks to sell their homemade food to locals, intends to expand into six more cities next year and plans to raise more funds beyond 2023.

EQUITY SEED FUND-RAISE

Renewables technology firm Sennen launched in 2017 and this year completed its second funding round – raising £780,000 in equity seed capital.

The funding in this round came from both new and existing investors. Typically, seed capital is financing used in the formation of a startup and funding is in exchange for an equity stake or for a share in profits. Sennen is growing fast and now has 18 staff and a turnover of £1.2m.

PRIVATE EQUITY

With a fixed investment horizon, private equity (PE) funds – typically venture capital, buyout or leveraged buyout – are invested in companies that represent opportunities for high rates of return. Down the line, a private equity firm will hope to exit investment profitably via sale to another private equity buyer.

Eco-friendly underwear company Stripe & Stare was founded in 2017 and has grown revenue by over 100 per cent a year for the last three years. Following a recent £2.5m investment from BGF and private backers, the business intends to scale by increasing employment and production capacity at its Yelverton HQ in Devon in order to drive UK and international sales.

DEBT CAPITAL

Companies can of course borrow money as they require large amounts to fuel growth and to fund short-term projects also. This tends to be done privately through a bank or lender or publicly via debt issues, known as corporate bonds.

ALTERNATIVE FINANCE

Investors offer alternative financing arrangements. South West-based BOOST&Co, for instance, offers £2m to £10m in one to four months to companies ready to scale – It is structured as debt and involves little to no equity dilution. Requirement-wise, your company needs an established model and revenue run rate of £5m-plus and to be profitable within a few months of it.

SPOTLIGHT

What investors are looking for

What do investors want to see from companies looking for investment to grow?

Chris Mears
BOOST&Co

- A management team that can demonstrate the expertise, agility and commitment to deal with the unexpected.
- Clear USPs that drive sales and margins and protect against market changes and new entrants.
- Realism and integrity – a funding relationship must be built on trust and openness.

Alex Garfitt
BGF

- A clearly articulated point of difference and what makes the business's product or service stand out.
- The right people with the right skills throughout the organisation, not just around the board table. Attracting and retaining talent is increasingly important in hybrid working environments where barriers to switching jobs are much lower.
- Capturing data and a company-wide understanding of the importance of high-quality information.