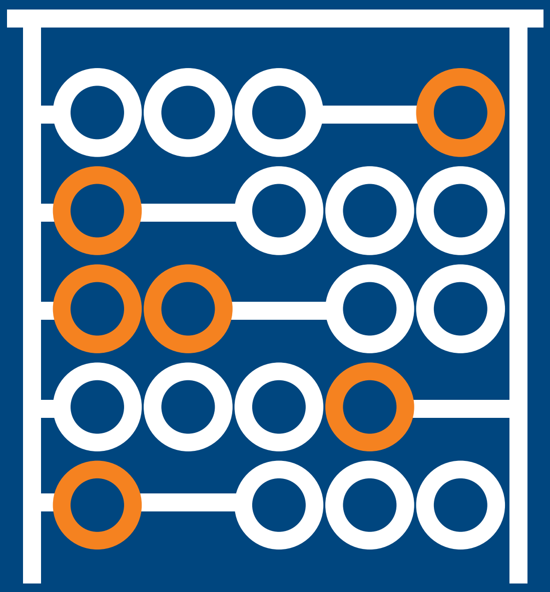


YOUR ESSENTIAL GUIDE TO COMMERCIAL FINANCE

Everything you need to know about the range of funding products available to businesses

Hilton-Baird
Financial Solutions

Introduction

At some stage in its lifecycle, a business is likely to need access to external finance.

Whether to get its idea off the ground, finance expansion, buy its first office or to support cash flow, there is a whole host of scenarios and circumstances which can lead a business to explore their finance options.

Yet with so many lenders and products available and the market evolving all the time, it's rarely straightforward to identify the most appropriate and beneficial solution.

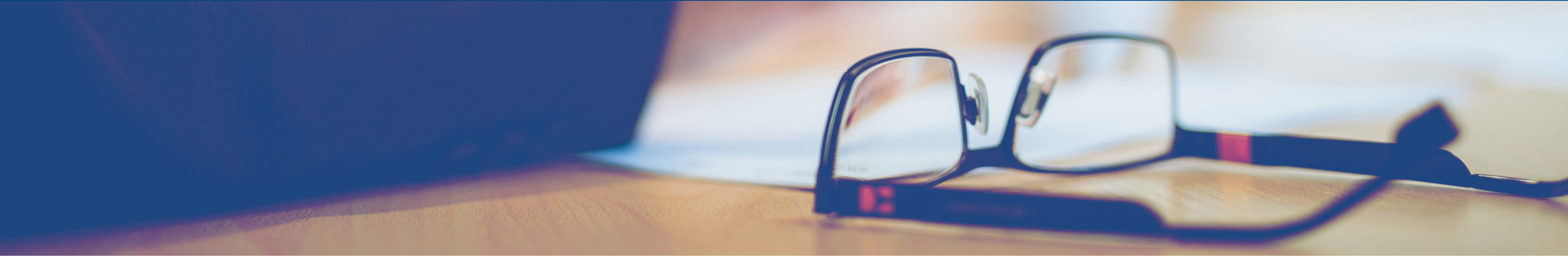
At Hilton-Baird Financial Solutions, we've been introducing businesses to the most suitable finance facilities and lenders since 1997 as a commercial finance broker – and understand how confusing the search for finance can be.

That's why we've produced this guide to cut out the jargon and explain some of the different funding options available to businesses – plus which funding requirements they're typically best suited for.

I hope you find it useful.

Evette

Evette Orams
Managing Director
Hilton-Baird Financial Solutions



Why might a business use external finance?

The starting point of any search for funding is to fully understand the reason a business might require external finance.

Unfortunately, it isn’t always possible to rely on personal investment, profits and cash surpluses to get by. Whatever your company does, external funding will often be necessary to keep cash flowing throughout the business and to finance investment.

In many cases, securing external finance can be the catalyst for businesses to achieve more than they would otherwise be able to.

On each page, look for the blue box which shows just some of the things each funding method can help with. Although not exhaustive, these include:

Day-to-day cash flow

Every business needs a healthy cash flow to survive, but sometimes a specialist funding facility is needed to facilitate this.

Rapid growth

Although it sounds great, growing too quickly can cause problems if a business lacks the right funding support.

Fulfilling new & existing orders

Trading on credit terms can put a huge strain on a business’s cash flow and make it difficult to keep up with demand.

Paying VAT, PAYE, staff or suppliers on time

A weak cash flow can make paying staff, tax bills and suppliers on time difficult without adequate funding support.

Purchasing equipment

Lots of equipment and machinery can be expensive, so facilities help businesses pay for them while keeping cash free.

Protecting cash flow

With late payment and the threat of debtor insolvency high at present, different facilities can help to protect cash flow against the risks.

Financing MBIs & MBOs

Any takeover or acquisition typically requires a large investment which several funding facilities can help to deliver.

Buying new property

Owning commercial premises brings many advantages, but external funding is often required to finance the purchase.

Invoice finance

Invoice finance helps businesses to keep cash flowing when selling to other companies on credit terms.

Trading on credit terms can be challenging for businesses. It means that the company’s goods and services need to be supplied ahead of being paid by customers, which can place a strain on cash flow.

While there are a few variations, all invoice finance facilities release cash against the invoice value within 24 hours of it being raised. This keeps money free to provide the goods and services requested, pay suppliers and meet other day-to-day commitments.

Although the initial advance can vary by industry, up to 90% of the invoice value can be made available by the lender, with the remainder forwarded once the client pays, less the lender’s fees.

What are the variations?

Factoring

With factoring, the lender additionally provides a dedicated sales ledger management service. As well as bringing expertise to the process, it also removes the burden and overhead from the company, keeping time free to spend on winning new business and other core tasks.

For this reason factoring is typically more suited to smaller businesses who benefit most from outsourced expertise dedicated to this critical function.

Invoice discounting

Invoice discounting keeps the credit control element with the client, allowing the business to retain their all-important customer relationships.

It’s therefore more widely used by businesses with a turnover of more than £1 million, with the primary benefit being the cash flow support that the funding provides.

Spot factoring

While most types of invoice finance cover the whole turnover and therefore provide a revolving source of funding, spot factoring – or single invoice finance – allows businesses to raise funding against individual invoices.

This is ideal for businesses that don’t require funding against every invoice, but would instead benefit from a cash advance against invoices with a particularly high value, or those supplied on long credit terms that would tie up cash for an extended period.

Each option can additionally incorporate bad debt protection to safeguard cash flow against the threat of bad debt through late payment or debtor insolvency.

What can it help with?

- Day-to-day cash flow
- Fulfilling new & existing orders
- Paying VAT, PAYE, suppliers on time
- Rapid growth

Get an invoice finance quote

Keeping cash flowing

Securing an invoice discounting facility helped Astringo Commodities Limited to keep their cash flowing, invest in wider products and increase sales by 40%.

After a successful few years, the IT wholesalers, founded in 2008, had begun offering credit terms to their customers and needed to bridge the gap between the issuing of invoices to receiving payment.

Upon speaking to his bank at the time, Managing Director, Simon Powell, was unsure whether they were the correct option for what his business needed.

Simon ultimately contacted the Hilton-Baird Financial Solutions team in search of a suitable funding solution to allow Astringo Commodities Limited to keep growing.

After taking the time to understand what the business needed, Hilton-Baird introduced Simon to a number of funders willing to offer a solution for his cash flow concerns.

Subsequent to weighing up his options, Simon took up an invoice discounting solution from a funder that ticked all the relevant boxes for his business.

"We chose our funder for a number of reasons," he explained.

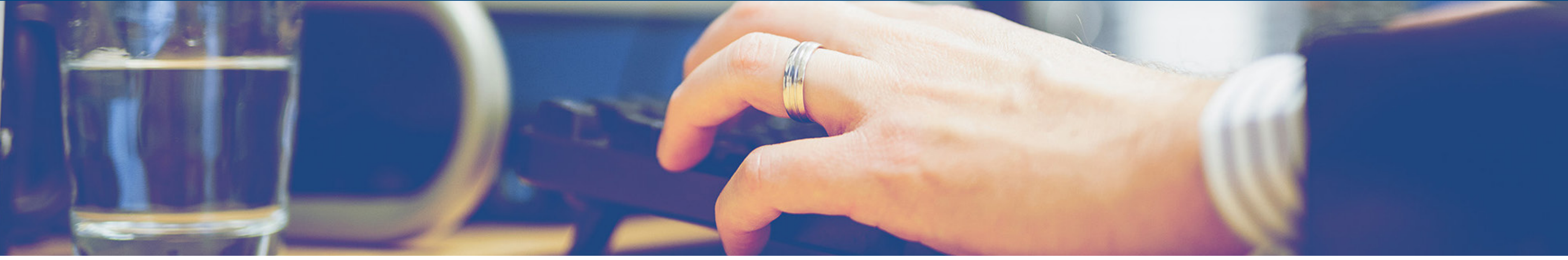
"Firstly, we were introduced to the decision maker rather than going through any sales pitch. The fact they were both upfront and honest showed they cared about doing right by us.

"Secondly, they understood how a small, up-and-coming business works and showed a refreshingly flexible and commercial attitude that seems to be missing with some banks or lenders."

Since the invoice discounting facility has been in place Astringo has secured ongoing business with some of their larger customers, as well as being able to reinvest the cash into wider products that has resulted in a 40% increase in sales.

"The invoice discounting facility we have has helped us to move forward and removed the cash flow worry, which means we get to move forward as I see fit," said Simon.

"Contacting Hilton-Baird was the catalyst my company needed to grow. Their knowledge of the industry was second to none and helped find the perfect funder for me."



Asset based lending

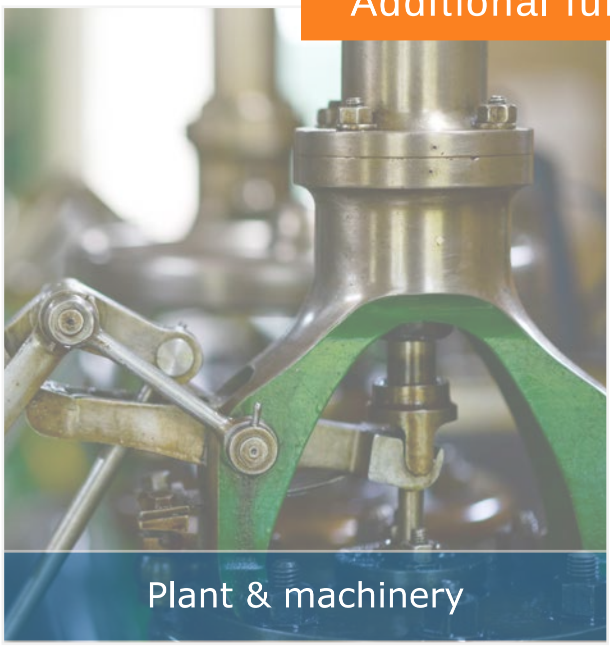
Asset based lending, or ABL as it is commonly known, enables businesses to generate cash against the value of different assets on the balance sheet.

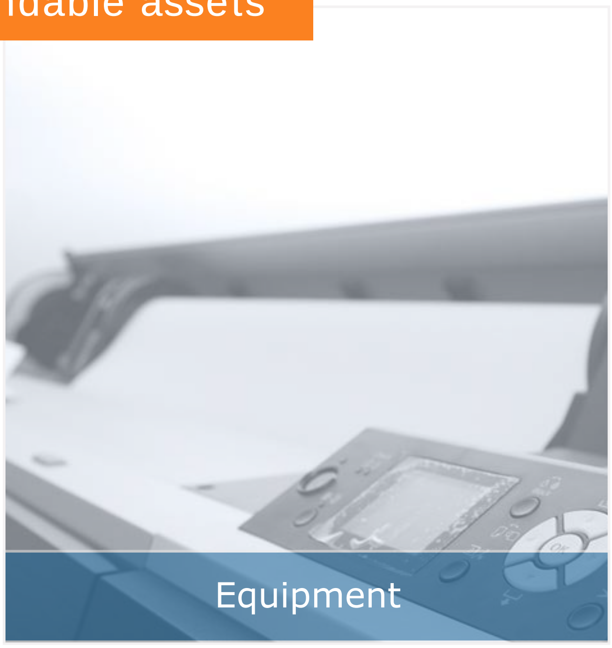
With invoice finance at its core, which advances cash against the value of invoices within 24 hours of their issue to bridge the cash flow gap between providing goods or services and getting paid, a range of other assets can be used as security to generate additional funding.

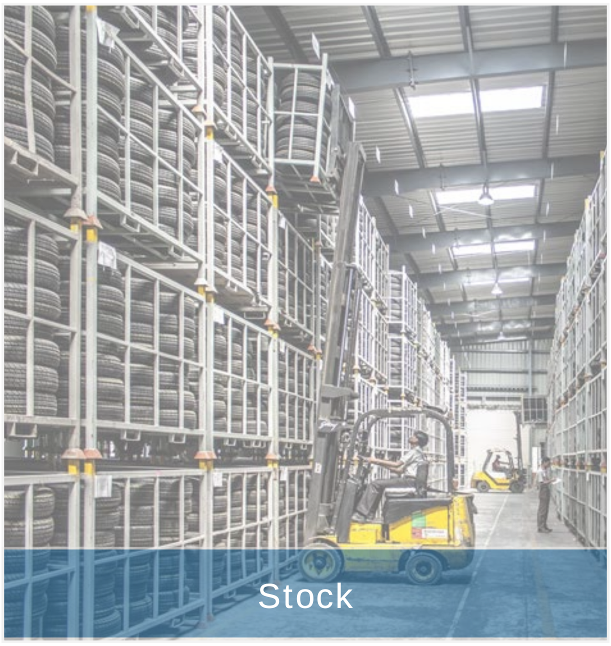
Plant and machinery, equipment, property and stock are the most common, enabling the business to access sometimes large amounts of cash to reinvest into the business or refinance. Bad debt protection can also be incorporated, if required.

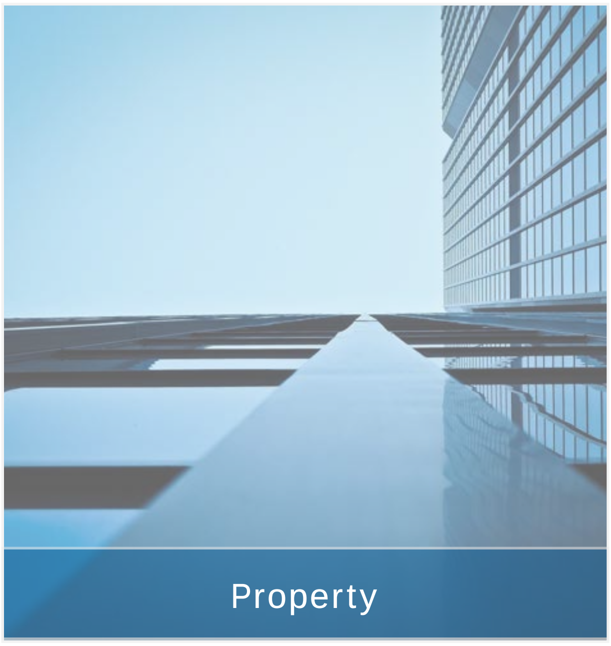
It is more suited to larger businesses, typically those turning over more than £1 million.

Additional fundable assets


Plant & machinery


Equipment


Stock


Property

What can it help with?

- Day-to-day cash flow
- Fulfilling new & existing orders
- Paying VAT, PAYE, suppliers on time
- Rapid growth
- Financing MBIs & MBOs
- Buying new property

Get an ABL quote

Trade finance

Trade finance facilities provide businesses who trade internationally with cash flow support, protection and expertise to make the process of importing and exporting as seamless and risk-free as possible.

Because of the increased distances that goods have to travel and the lengthy credit terms that are prevalent with international trade, cash is typically tied up for longer and supply chain disruption more common.

Trade finance facilities therefore release cash against the value of confirmed orders, helping exporters to keep cash flowing and importers to fulfil orders on credit terms.

Lenders also bring valuable knowledge in overseas markets – for instance, language and cultural differences – and can provide bad debt protection and sales ledger management services to further safeguard the business's cash flow.

What can it help with?

- Day-to-day cash flow
- Fulfilling new & existing orders
- Paying VAT, PAYE, suppliers on time
- Rapid growth

Credit insurance

A number of the products featured can incorporate bad debt protection, such as invoice finance and asset based lending.

However, credit insurance can also be provided as a standalone facility and run concurrently alongside a wide range of commercial finance facilities.

Essentially it protects businesses from the risk of bad debt by safeguarding cash flow against late payment and debtor insolvency. Subject to credit limits, the policy will see the insurer cover the cost of the goods and services provided in these events.

Crucially, credit insurance can be provided against a business's entire debtor book, key customers or individual debtors that may have an adverse credit history.

It can therefore help to negotiate favourable terms with suppliers, as policies will reduce the impact of a bad debt on them, too, and also increase the business's chances of securing new or additional funding.

What can it help with?

- Protecting cash flow
- Obtaining new funding

Request a call back

Loans

Loans provide a short-term option for businesses to raise funding quickly.

The funding is advanced by the lender and then repaid by the business, plus interest, through regular instalments over a set period.

Because interest rates are fixed for the term, the level of repayments stay the same throughout the loan period - and it won't be repayable on demand unless the terms of the conditions are breached.

Loans are often therefore a good option for businesses that require funding urgently to cover a short-term cash flow gap, or perhaps to buy something essential that would otherwise create one.

What are the variations?

Typically loans are secured against a company's assets to protect the lender in the event the business defaults on repayments (known as a **secured loan**).

Where a business lacks assets to use as security, loans can be granted based on the company's trading history, credit rating and track record – although Personal Guarantees may be required from the company directors (an **unsecured loan**).

Loans can also be secured against a company's debtors, or invoices, something known as a **receivables loan**. However this is more commonly referred to as invoice finance (*see page 3*), with up to 90% of the invoices' value advanced within 24 hours of issue and the remainder, less the funder's fees, forwarded once customers pay.

Peer-to-peer lending (P2P)

The loans market has expanded massively in recent years. In addition to traditional banks, a number of online lenders offer competitive rates to businesses in need of a cash flow boost.

While some lenders provide the funds directly, others source the funding indirectly from private investors, known as peer-to-peer (or P2P) lending.

These investors effectively bid for a business's custom through online platforms, which can sometimes drive interest rates down below those offered by traditional lenders, and provide a choice of partners to work with.

What can it help with?

- Day-to-day cash flow
- Fulfilling new & existing orders
- Paying VAT, PAYE, suppliers on time
- Purchasing new equipment
- Financing MBIs & MBOs
- Buying new property

Request a call back

Funding to pay staff on time

A £200,000 loan helped an IT and software consultancy to pay their staff and other bills on time.

A delay in funds coming in from an investment round meant they wouldn't have been able to meet month-end payroll and general creditor deadlines.

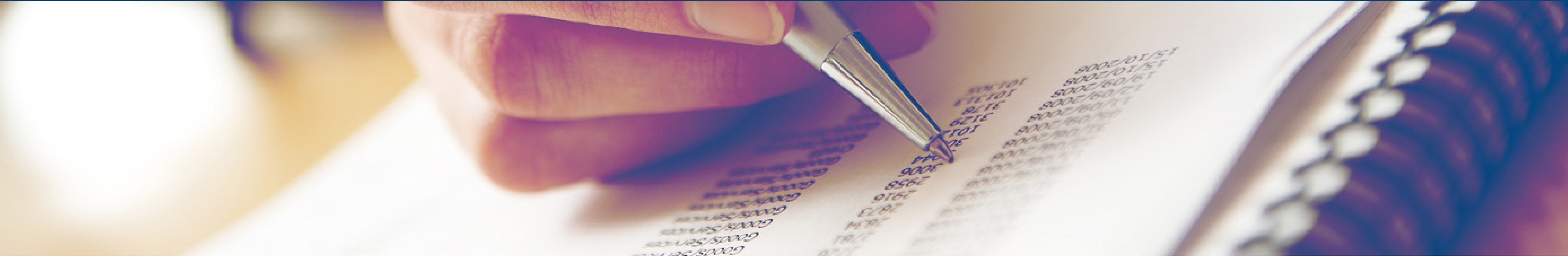
So their financial advisor approached our team of funding experts, who knew our experience as a broker would give them a great chance of securing the right funding in time.

Based in London and trading for more than 20 years, the business sells software products and associated consultancy services to blue chip organisations within global financial markets.

However, during our initial dialogue, it became clear the business had large losses on the accounts and a negative balance on bank statements, which inevitably hinders the position of any business when it comes to securing a loan as most providers focus on their affordability to repay.

Despite this, our team were able to introduce lenders who were willing and able to look at the strength of our client's order book, and also consider the value in their stock. By utilising these alongside a Personal Guarantee from the Directors, our client was able to access the right facility for their needs.

Within just four working days, Hilton-Baird had an underwritten offer on the table for our client and they drew the loan on the following day. So in the space of just five working days our client accessed the £200,000 loan they needed at a competitive rate, meaning staff and key invoices could be paid.



Asset finance

Asset finance helps businesses to finance the purchase or hire of new equipment or machinery and avoid tying up valuable cash flow.

Whether a business is looking to upgrade existing equipment or an important piece of kit has broken down, the cost of replacing it can create a cash flow headache – and may even be out of reach depending on the company's financial position.

Asset finance enables businesses to spread the cost of the asset over a longer period, minimising the impact on cash flow, and can bring a number of other financial and tax-saving benefits.

What are the variations?

Hire purchase

With hire purchase, the lender will purchase the asset on the business's behalf before leasing it back to them for a set period, during which monthly payments are made towards it. At the end of the hire contract the business will have the choice over whether or not to buy the asset.

Although the business will be responsible for the maintenance of the asset throughout the contract, it is possible to claim capital allowances against tax while the interest that's payable is typically lower than the interest accompanying an overdraft or bank loan.

Finance & operating leases

If a business only needs access to an asset for a short time, finance or operating leases can be cost-effective ways to achieve this. Essentially they allow businesses to rent the asset for a pre-determined period, with fixed monthly payments helping with cash flow management.

At the end of the lease agreement the lender typically sells the asset, which can lead to the business benefiting from a share of the proceeds, while the cost can also be deducted from taxable income as a trading expense.

Renting the asset also avoids asset depreciation, while operating leases see the lender assume the responsibility for maintaining the asset to further protect the business from any unexpected costs.

What about asset refinance?

It is also possible for businesses to release cash against the value of existing assets by selling a piece of equipment or machinery to an asset finance provider, before leasing it back in return for regular rental payments.

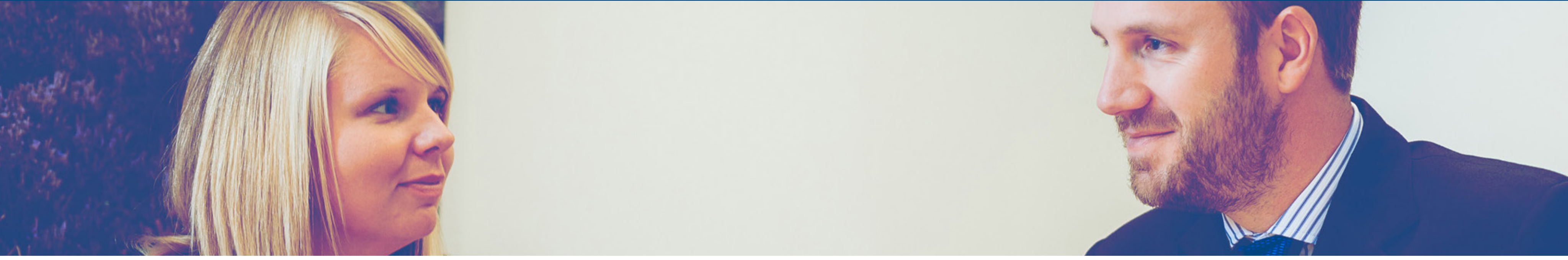
Whilst generating funding to meet day-to-day commitments or invest in growth, the fixed payments assist with cash flow management.

What can it help with?

Purchasing new equipment

Day-to-day cash flow

Get an asset finance quote



Commercial mortgages

Commercial mortgages are widely used by businesses to help fund the purchase of commercial premises, such as an office or warehouse.

Property is one of the biggest expenses a business will have. By obtaining a commercial mortgage, payments can be spread over a long period – typically up to 15 years – both avoiding the need to invest a huge sum and providing access to more expensive property.

The interest rate accompanying the mortgage can either be fixed, so repayments stay the same from month to month, or variable, so repayments fluctuate in line with the market.

One challenge with mortgages is that lenders will typically require a deposit of at least 30%. However, other finance facilities, such as asset based lending (*see page 4*), can often be used to generate the funding required.

Commercial mortgages can also be used to release funding, or equity, against the value of existing property. This can be achieved by borrowing more money when remortgaging, or by mortgaging a property the business already owns outright.

What can it help with?

- Buying new property
- Financing MBIs & MBOs
- Rapid growth
- Day-to-day cash flow

Sale and leaseback

Sale and leaseback is another useful way of releasing cash against the value of a business's property.

The business sells the premises to an investor, who then leases it back in return for regular payments over a pre-determined period. As well as providing a cash injection, the lease payments are typically fixed to help with day-to-day cash flow management.

It provides a useful alternative to selling and relocating to cheaper premises, and carries potential tax benefits as the leasing costs are offset as an operating expense.

Sometimes it is also possible to use sale and leaseback to purchase the property from an existing landlord when a commercial mortgage isn't an option.

The investor would buy the property, before leasing it back to the business to avoid the disruption that would come with relocating, for instance when the landlord decides to sell.

What can it help with?

- Day-to-day cash flow
- Fulfilling new & existing orders
- Buying new property
- Paying VAT, PAYE, suppliers on time

Avoiding the need to relocate

Having rented its retail shop for a number of years, news that their landlord wanted to sell came as a blow for one Scottish retailer as the business didn't have sufficient cash to put towards a deposit for a commercial mortgage.

Fearing that they would have to move, our team worked fast to introduce our client to a suitable sale and leaseback facility which has allowed them to continue trading from the same address.

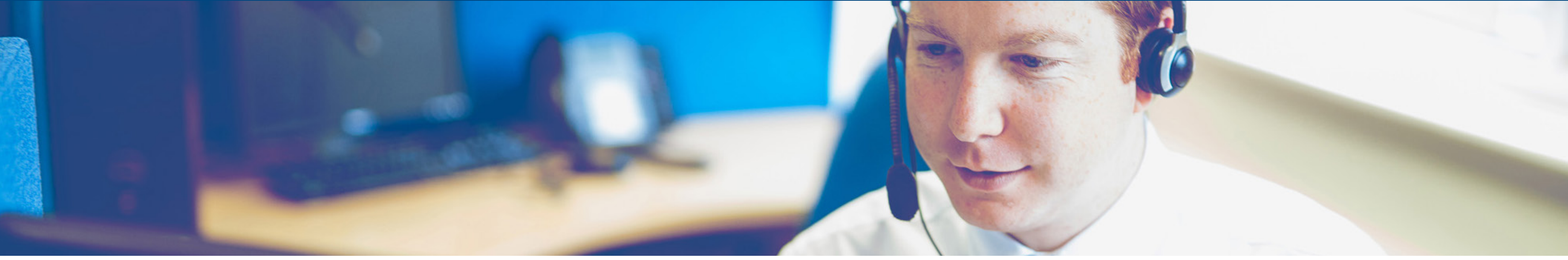
Our client sells a wide range of consumer goods to the public from its town centre shop.

Trading for more than a decade, moving premises and the upheaval that brings would have been detrimental to the business. So, when they learned their landlord wanted to sell the store, they contacted our funding experts to discuss their options.

As with most businesses, available cash was fully utilised so raising money for a commercial mortgage – given the 30% deposit required – was unlikely.

However, by combining our understanding of their business and knowledge of the commercial finance market, we introduced two suitable sale and leaseback specialists that could purchase the property from the landlord and lease it back to our client, all within the timescales our client needed.

Not only has the facility they chose ensured they can stay in their existing store, in the location that works so well for them, but we also saved our client a lot of valuable time and money and enabled them to secure a long lease period, which is what they required.



Key considerations

There's clearly a great amount of choice for businesses who might require a funding facility to help take their company forward.

However, there is a drawback to this in that it can make it difficult to identify which avenue is best.

This is especially so when you consider the number of lenders on the market, each with different areas of specialism, USPs and pricing structures.

So how do you know which combination represents the right fit for your business?

Here are five areas to consider when choosing a new finance facility.

1. Amount of funding

The facility (or combination of facilities) you choose has to provide the level of funding your business requires. Make sure that the funding will be available to you when you need it, however, as some facilities can take longer to arrange than others.

2. Flexibility

It's important that any facilities you choose are flexible. For instance, will the facility grow in line with your business? Can adjustments be made? And will you be tied into a long contract with the funder that might prove counter-productive over the long term?

3. Suitability

It's also vital that your facility suits your business. By this, we don't just mean if the facility will work for your business over the short, medium and long term, but also whether the lender is the most suited to your business and culture.

4. Lender's expertise

Some lenders specialise in certain industries or in working with businesses of particular sizes. So make sure you find one that can bring additional value to you, and also provide the level of service and relationship that you desire and expect.

5. Cost

Ultimately any facility you choose needs to be affordable. A loan with a huge interest rate, for instance, might work in the short term but create challenges down the line. But remember it can be worth paying for a more expensive facility if it delivers more value to the business.

Independence and expertise in matching businesses with the right funding facilities since 1997

How Hilton-Baird can add value to your search

As an independent commercial finance broker, we save our clients time and money in their funding search and help them to secure the most suitable facilities for their requirements.

Established in 1997, we have extensive knowledge of the commercial finance market and take the time to get to know our clients' specific requirements and challenges in order to match them with the right funding solutions and lenders.

Our expert team will guide you through the process, answering any questions you may have and making sure that any facility you choose to proceed with continues to work for you over the short, medium and long term.

Contact us today to discuss your requirements with one of our award-winning team and discover the value of working with a broker to help you find and secure the right facility for your business.

Why use Hilton-Baird?

- We have extensive knowledge of the commercial finance market
- A proven track record, with 23 years' experience and multiple award wins
- Fully independent, with no affiliations to any lenders
- Authorised and regulated by the Financial Conduct Authority
- Members/affiliates of UK Finance, the NACFB, FLA & CFA

Benefits of using a specialist finance broker

- Save time and money in your funding search
- Benefit from extensive knowledge of suitable providers and facilities
- Gain access to key decision makers at the different funders
- Find the right fit in terms of funding, level of service, culture and cost
- Benefit from continued support throughout the duration of your facility and beyond

Request a call back

Call 0800 9774833

Contact us online

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Financial Solutions