

Finance Management & Planning

Sources of Finance

This Week

- Sources of Finance
- Course Refresh

Next Week

- Good Friday
- 14/04 - R&D Guest Lecture
- 21/04 – Smart Partnership Guest Lecture
- 28/04 – 19/5 1:1 Tutorials
- 26/05 – Final Catch up on any issues with your assignments

Any question on the assignment ?

In this session we will:

- Consider why/when finance may be required by a business
- Outline the key sources of finance and the differences between them
- Review the advantages & disadvantages of various sources of finance

What is your current view on the ability for businesses to raise Finance ?

What Questions do you need to consider ?

Short Term to Long Term Finance ?

Internal and external sources of Finance ?

Loan versus Equity ?

Grant Availability ?

Traditional v Non Traditional ?

Cost of Finance ?

When might finance may be required by a business?

- New business start-up
- Expansion of existing business (e.g. to increase production capacity)
- Finance existing business costs (e.g. purchase new or replacement assets)
- Move to new premises
- Acquisition or take-over of a business
- Develop and market new products
- Enter new markets
- Others?

The purpose of finance

“Different sources of finance have different implications for a business, so it is important that the most appropriate method of finance is chosen for the purpose that the business has in mind”

Key sources of finance - the differences

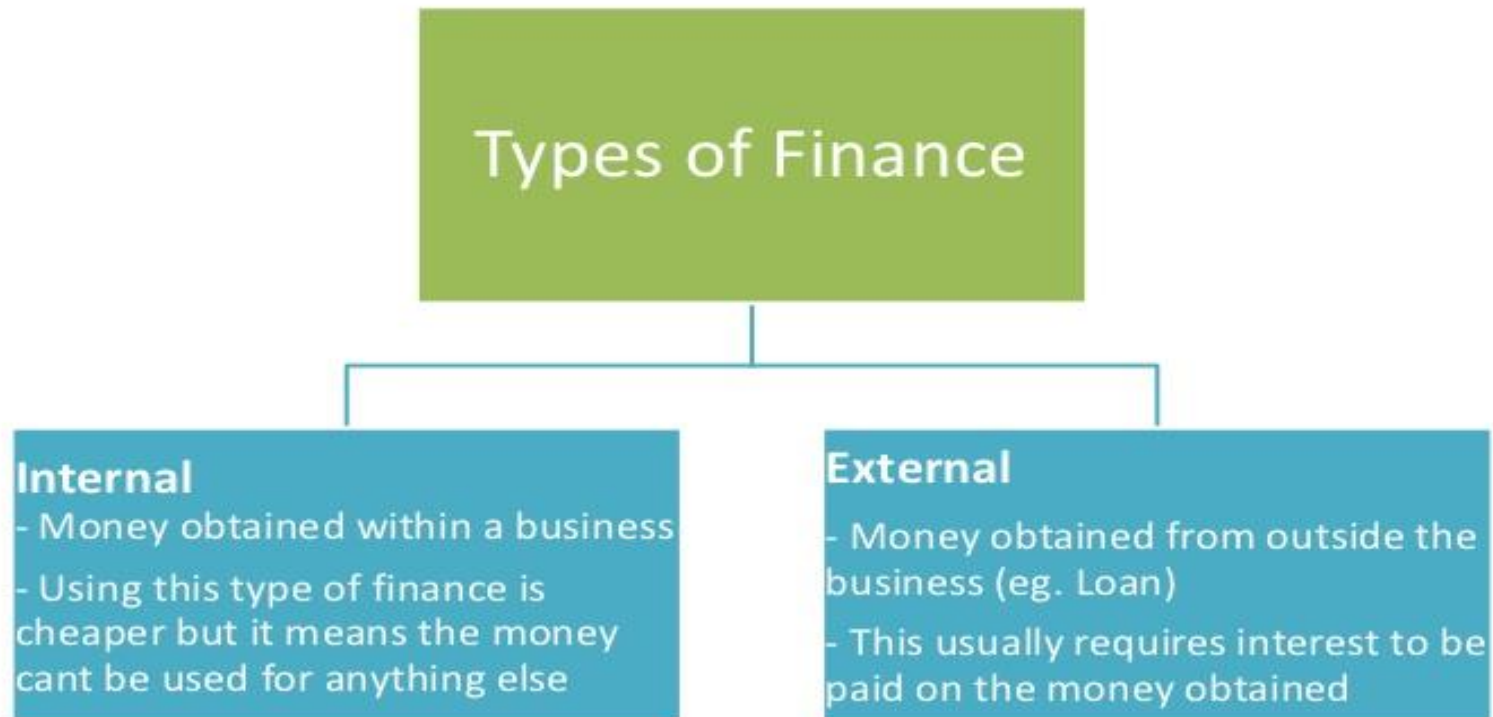
INTERNAL OR EXTERNAL

- Internal does not require approval by anyone outside of the business and can often be obtained quickly
- External finance requires the agreement and compliance of external stakeholders and may be more difficult to obtain (consider time constraints)

LONG-TERM OR SHORT-TERM

- Long-term usually means finance provision and repayment required - longer than one year
- Short-term usually means finance provision and repayment required - inside one year

Different Types of Finance



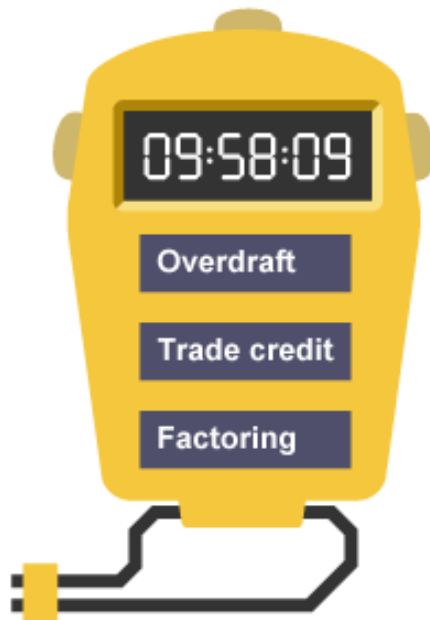
Key sources of finance

Short-term internal Tighter credit control for receivables Reducing inventory levels Delaying trade payables	Long-term internal Retained profits
Short-term external Bank overdrafts Debt factoring Invoice discounting	Long-term external Ordinary shares Preference shares Borrowings Finance leases Hire purchase agreements Securitisation of assets

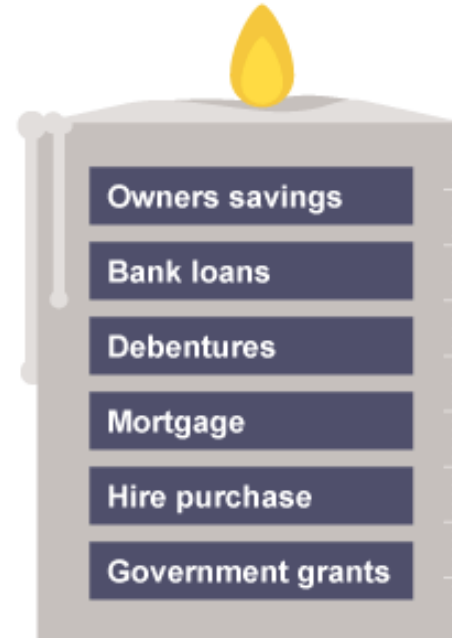
Selecting of sources of finance will depend on...

- Amount of finance required
- How quickly funds are needed
- The duration of the borrowing
- The cost of the source of finance (e.g. interest/administration)
- The risks involved
- The ratios (gearing, current, etc.)
- The management and control of the business

Short term sources of finance



Long term sources of finance



TYPES OF BUSINESS FINANCE



DEBT FINANCE

- Start up loan
- Overdraft
- Bank loan / bond
- Peer-to-peer lending
- Asset-based finance
- Leasing / hire purchase
- Export / trade finance
- Growth finance



EQUITY FINANCE

- Seed finance
- Angel Finance
- Equity Crowdfunding
- Venture Capitalist
- Corporate Venture Capital
- Private Equity
- IPO / Public Offering



GRANTS

- Business start-up grant scheme
- Childcare business grants
- Enterprise Europe Network
- Food Enterprise Advisory Support Team (FEAST)

Sources of finance

The lenders' perspective on financial ratios

Gearing ratio

The gearing ratio shows the ratio of long-term debt capital to the total capital of the business. If a business is highly-gearred then lenders may be unwilling to give loans because the business is operating on more borrowing than equity capital, and would have to allocate more of its profits to paying interest on its debts. Potential lenders would be concerned at the business' ability to take on further interest payments.

Current ratio

This measures the ability of a business to meet short-term liabilities from short-term assets, and if this is poor (consider the 2:1 guideline) then lenders may be reluctant to offer finance.

A **long-term lender** will always want to know the **gearing ratio** of a company while the **short-term lender** will want to know about the **current ratio** (liquidity) of the business.

Reading to support this session

“Accounting and Finance for Non-Specialists” by Atrill & McLaney

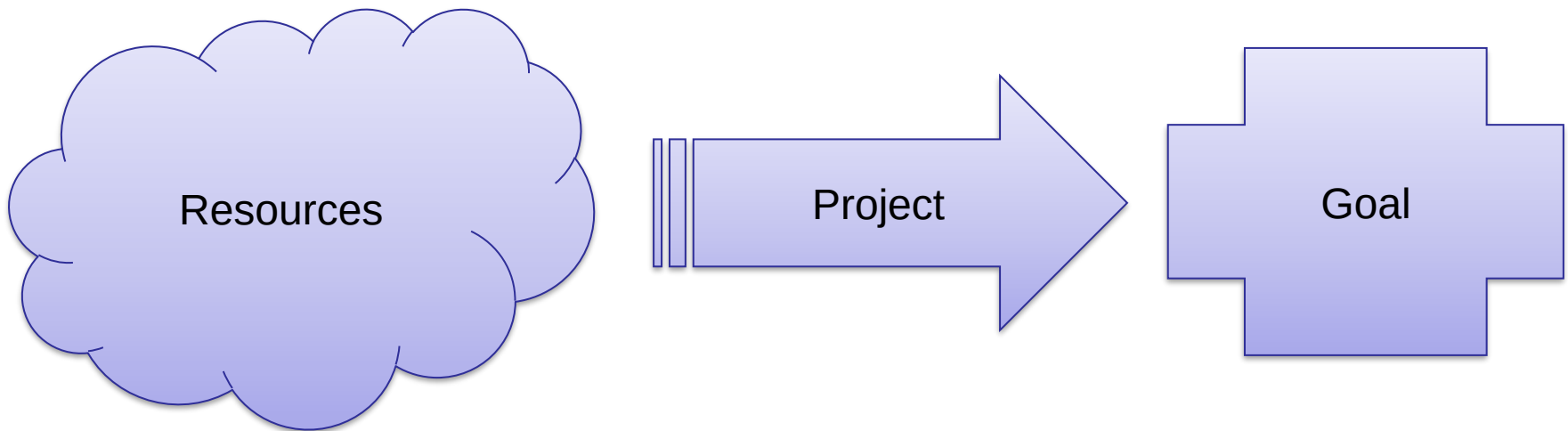
Chapter: **Financing a Business**

<https://youtu.be/D1G8Y1Ob3Co>

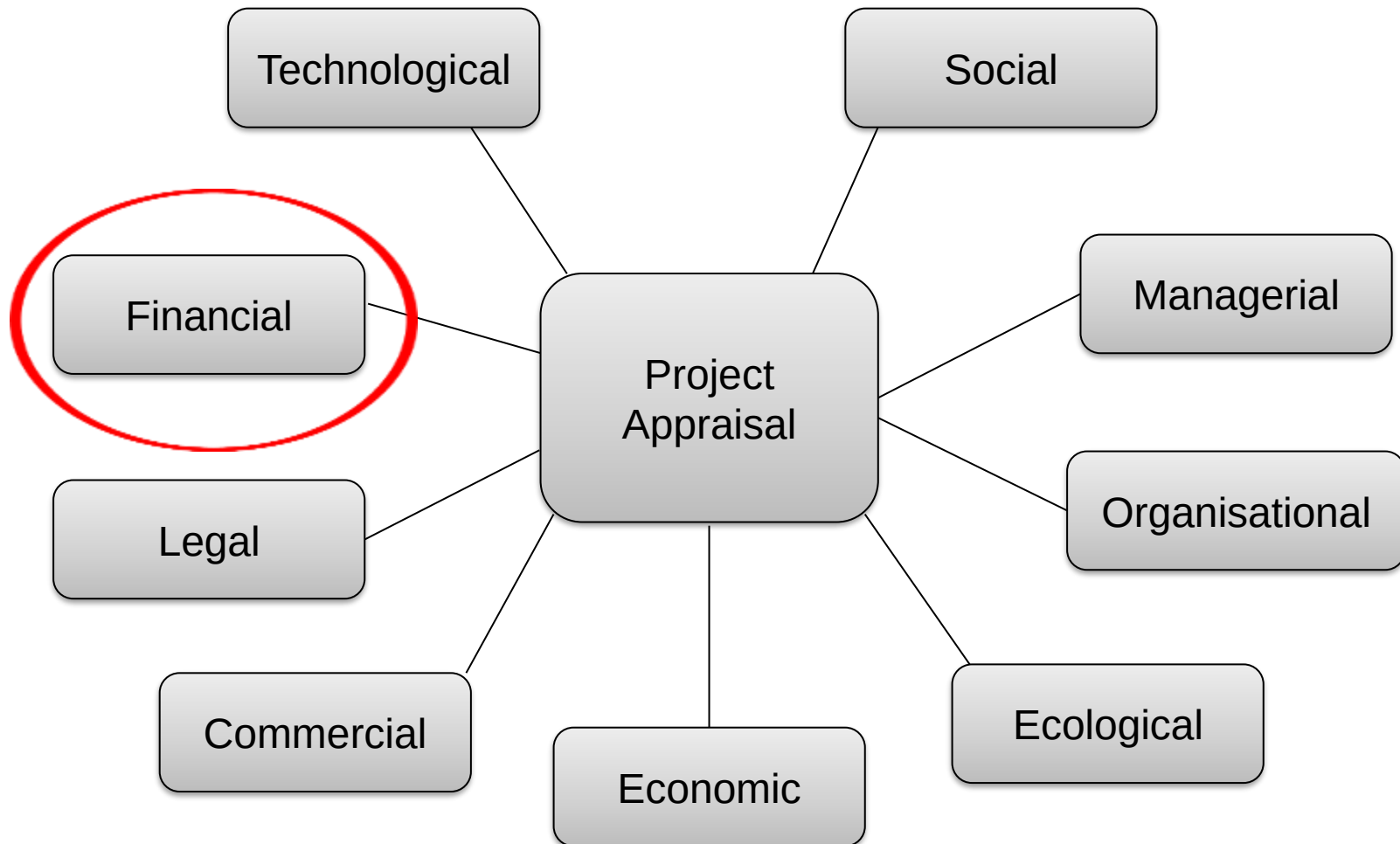
Finance Management & Planning

Project Appraisal – Course Refresh

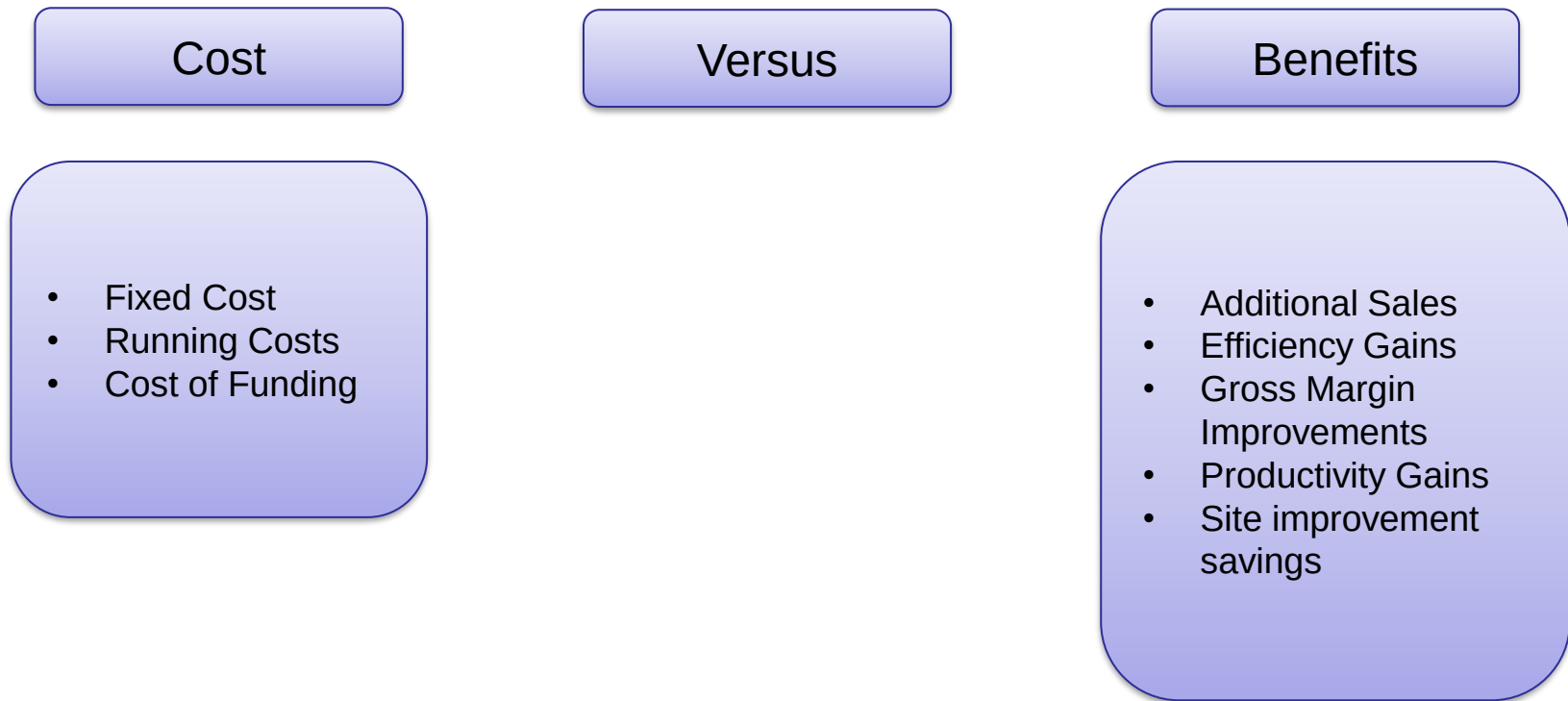
A project is a means to achieve a goal by applying a certain amount of resources.



A **Project appraisal** is a costs and benefits analysis of a proposed project with an objective to adjudge is feasibility.



Financial Appraisals



Remember your analysis is only as good as the strength of your data

- Aims of Project Appraisal?
 - Selecting the best project
 - To assess projects credit-worthiness,
 - To assess the profitability of the project;
 - To assess the probable cost and benefit;
 - To assess the requirements of raw material;
 - To assess the fixed and working capital;
 - To anticipate a possible market of the product;
 - To assess the management's competence,
 - To find out whether the various factors of production are available,
 - Fulfilment of social objectives such as employment generation, regeneration of areas.
 - Legal requirements
 - Environmental requirements

Financial Appraisals Tools



Project Appraisal Assignment

Presentation – Max of 10 Slides

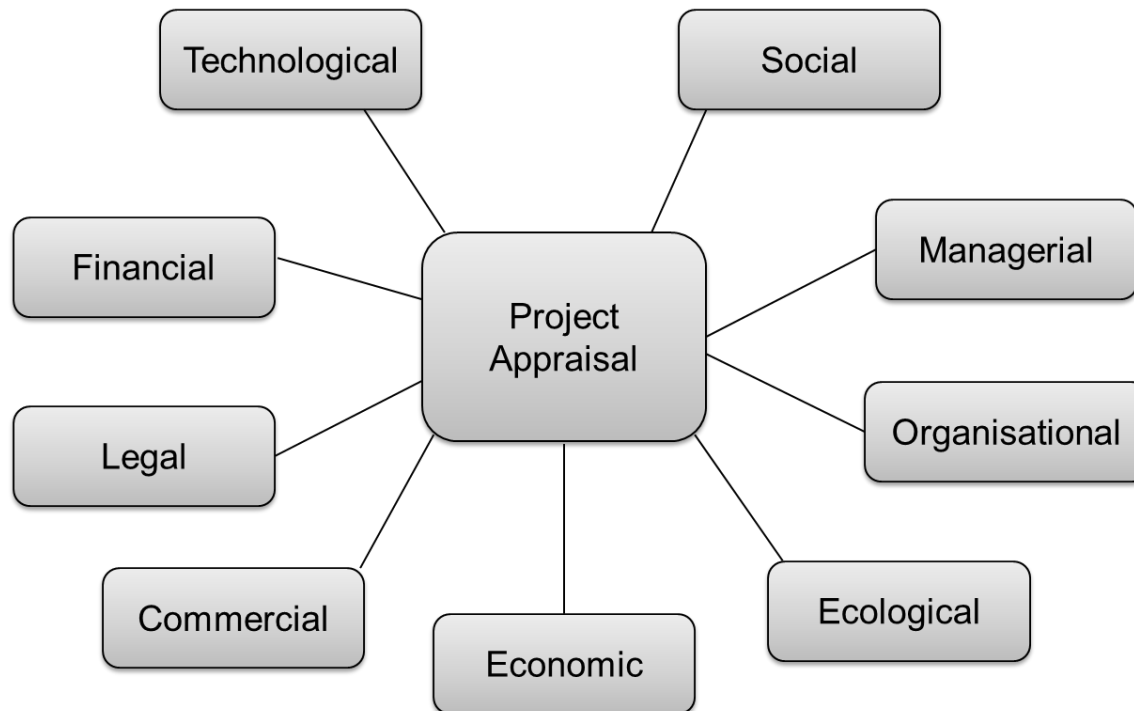
- Introduction – Why are we here, what are we discussing ?
- What does the project bring or solve for the business
- Timeline for implementation
- Cost of Project
- What is the full lifespan of the project ? 5 Year / 10 years etc
- Any issues that implementation will cause
 - Redundancy
 - Disruption
 - Down time
- What is the rational of your business
 - Payback ie less than 2 years
 - IRR greater than 20%
 - Positive NPV from a WACC of x%
- Model the project
- What are your options for funding the project?
- Conclusion and recommendation

Handout – Max of 3 pages plus reference list

- Overview of the project, the findings and recommendations
- Linking in to your wider reading of explaining the use of the models
- Linking in to your wider reading linking to Funding options the business could utilise outside their own cash.
- Reference list.

Seek approval for all company information used within your presentation

Remember to think about the implications based from all viewpoints where possible.



Any Questions ?

