5. Funding Available for IP-Rich Businesses

Introduction

As the "Banking on IP?" report notes; SMEs' first port of call for finance is often a bank. Figures quoted in the report show that 40% of SMEs seek a loan and 35% seek an overdraft. Only 1-2% of these businesses try to get equity funding. It is likely then that potential sources of funding are untapped.

The Banking on IP response identified that one of the problems businesses faced was how they might identify financing options available to them.

Funding available

The following types of funding are in addition to the normal funding available via bank loans or family and friends.

Debt Finance

Asset-based lending

Asset based lending is finance which is secured by assets, such as plant and machinery, stock and property.

Invoice financing is the most common form of asset based lending and in most cases acts to support business to manage their cash flow, bridging the gap between the delivery of goods or services by a business and the payment from its customer.

Businesses typically use this type of finance to fund their working capital and those that are experiencing high growth find invoice finance flexible as the borrowing grows alongside the sales ledger.

The bank will provide an advance that represents a percentage of the amount invoiced which depending on the business, the sector and the payment profile will generally range from 70-90%.

Creative England Business Loan Fund

The Business Loan Fund is intended to stimulate business growth and development in creative and digital Small, Medium-sized Enterprises (SMEs).

It supports businesses who are experiencing difficulties in accessing finance because of high levels of risk or uncertainty around the outcome of projects. It is targeted at businesses who can demonstrate high-growth potential and who want to make a step in their development.

In line with the Regional Growth Fund objective, this funding is only available to businesses based in the North of England, the East & West Midlands and the South West.

A total of £1.5 million is available. This is distributed as secured loans of £60,000 to £150,000 for single projects. The maximum loan available is 50% of the total project costs.

Applicants need to show that the balance of the project costs (50%) will be provided as either a contribution from their own resources or from third parties. As well as a desire and ability to grow through the delivery of high-quality, commercially astute projects which result in the creation and safeguarding of full-time jobs (with a minimum of a 12 month contract). All funds are subject to the availability of funding and are discretionary interest-free loans.

Mezzanine

This type of funding combines elements of debt financing and equity investment and is often described as a “hybrid” or “halfway house”. Basically, in addition to receiving fees and interest on the loan, the provider also benefits from a share of the upside when the borrowing business achieves its growth objectives.

The downside is that lenders usually want a high return on their money so this type of finance can be aggressively priced as there is little or no collateral.

Peer- to-Peer lending

Peer-to-peer lending, also known as person-to-person lending is another form of crowdfunding and is the practice of lending money to unrelated individuals without going through a traditional financial intermediary such as a bank. This lending takes place online on peer-to-peer lending business’s websites using various different lending platforms and credit checking tools.

Most of these loans are unsecured personal loans. They are made to an individual rather than a business. Other forms of peer-to-peer lending include student loans, payday loans, as well as secured business loans, leasing and factoring.

Pension led

Pension led funding uses the business owner’s accrued pension funds to invest in their own companies.

It provides funding without having to give a personal guarantee to a lender and can provide protection for business assets held within the pension scheme.

Pension led funding can utilise IP (if available) as a new asset to secure these funds.

Once the IP value has been established, the Pension’s trustees agree to buy some, or all, of the IP assets from the business, or loan money to the business secured against the IP.

Once the business receives a cash sum, it begins making lease payments back to the pension scheme.

Start-up Loans

This is a Government funded scheme that provides support to young people to help them start up their own business.

The scheme provides loans and mentoring support to applicants in England aged 18-30 who would not normally be able to access traditional forms of finance for a lack of track record or assets.

The average loan value is £4,500, repaid over a term of 12-60 months.

Every business that receives funding will be assigned a mentor who is on hand to help the business succeed.

Equity Finance

Angel Investing

Angel investors are affluent individuals who provide capital for a business start-up usually in exchange for convertible debt or equity ownership. While banks may avoid the perceived high risk of creative business, angels are concerned with growing their stake and the likelihood of making a good return on their investment.

Angel investors commonly invest stakes as low as £10,000. While they may be happy to wait longer for the "exit" when they take their return on investment, they are usually looking for businesses that offer a ten-times return, so that at exit, that initial £10,000 stake would be worth £100,000.

Angels frequently invest through organised networks and formal syndicates or they may invest on their own or with a number of fellow investors on a deal by deal basis. They may also be accessed through accelerator programmes or incubators. In most cases Angels like to invest through meeting entrepreneurs at live pitching events or showcasing events.

Business Angel Co-Investment Fund

The Business Angel CoFund is able to make initial equity investments of between £100,000 and £1 million in to small, high-growth-potential businesses alongside syndicates of business angels.

The fund invests in businesses across the UK and will consider proposals for businesses at all stages of development and in most sectors, provided they qualify as an SME.

Proposals to the Angel CoFund may only be made by business angel syndicates. Individual businesses seeking investment are not eligible to apply directly and should first look for an investment syndicate.

Venture Capital

This is a type of equity finance where an investment would be made in return for a share of equity.

Businesses who obtain venture capital do so because they have developed a product or service that has market potential but are restricted on time to push this forward without obtaining an injection of cash.

When using this method of funding, businesses not only get an injection of cash, they also receive expert help in business growth. This can help them realise their potential when it comes to promoting their product/service.

Grant Funding

Catalysts

Run jointly by Innovate UK and the Research Council as a form of research and development funding which focuses on a specific priority area and aims to help take projects from research to as close to commercial viability as possible.

The Catalyst model supports projects in priority areas where the UK research base has a leading position and where there is clear commercial potential. Three levels of funding are usually available, varying according to how close a project is to commercialisation, with applicants able to join at any phase.

Catalyst funding is offered through an ongoing competition. Individual businesses (and academics where supported) and a combination of businesses and academics, have the opportunity to propose projects which will create new knowledge and future products, processes and services.

Collaborative Research & Development

Collaborative research and development is another scheme run by Innovate UK and encourages businesses and researchers to work together on innovative projects in strategically important areas of science, engineering and technology – from which successful new products, processes and services can emerge, contributing to business and economic growth.

By co-funding projects involving partnerships between businesses and between business and academia, collaborative research and development can reduce financial and technical risk and encourage knowledge exchange, supply chain development and parallel working on complex challenges.

Frequent competitions are held, in a wide range of areas covering specific technical or community challenges.

Enterprise Investment Scheme (EIS)

This scheme gives entrepreneurs the opportunity to offer investors in the business access to tax breaks, as long as they pay tax in the UK.

This scheme can offer up to 30% tax relief to investors.

Angel investors in particular can gain both income tax and capital gains tax relief to investors who subscribe for eligible shares in small unquoted businesses that qualify under the scheme.

Before approaching investors to seek investment, the Entrepreneur must first gain approval from HMRC that their business qualifies for EIS investment, via the completion of an application form.

Growth Vouchers

The Growth Voucher programme helps businesses find and pay for professional strategic advice. After applying, businesses will be randomly chosen to get a voucher of up to £2,000.

This can be used to pay for up to half of the cost of advice on:

- Finance and cash flow,
- Recruiting and developing staff,
- Improving leadership and management skills,
- Marketing, attracting and keeping customers,
- Making the most of digital technology

IC Tomorrow

IC Tomorrow is an Innovate UK programme that stimulates innovation and economic growth in the digital sector by breaking down barriers and opening doors for a new generation of entrepreneurs. It serves as a hub for digital innovation, connecting start-ups and SMEs with leading commercial partners and investors through funded contests, events and strategic matchmaking opportunities.

The network supports innovation across a variety of industry sectors including music, film, fashion, publishing, TV, education, games, culture, sport, advertising, healthcare and finance.

A range of funded contests are run across the digital and creative sectors. These contests are run in collaboration with leading partners who help to set relevant challenges that will encourage innovation in new digital applications or services.

A variety of events such as pitching sessions and facilitated strategic matchmaking opportunities are also hosted by IC Tomorrow. These offer leading businesses and content owners the opportunity to meet innovative digital start-ups and entrepreneurs with new applications and services that will help to drive innovation in their sectors.

Innovation Vouchers

Innovation Vouchers are run by Innovate UK and are designed to encourage businesses to look outside their current network for new knowledge that can help them to grow and develop. Start-ups and SMEs from across the UK can apply for these vouchers.

A grant of up to £5,000 is available to businesses to work with a supplier (such as an IP professional) for the first time and is used to pay for knowledge or technology transfer from that supplier.

An Innovation Voucher should stimulate a business to explore obtaining new knowledge, enhancing its ability to develop innovative products, processes and services and explore new markets.

The scheme is open to micro and SMEs only. There is an upper limit of approximately £165k for all state aid provided to any one business over a three-year period.

Launchpads

Launchpads is another scheme run by Innovate UK and help technology-themed clusters of young, early-stage companies to develop and grow in specific locations around the UK.

These Launchpads act as catalysts for businesses with exciting and innovative projects to share knowledge, develop their entrepreneurial skills and attract further investment to bring their ideas to market.

Launchpads help to develop and strengthen clusters of innovative businesses in specific sectors and geographical locations. They support the development of clusters by:

- creating opportunities for SMEs (often including those that are not yet revenue earning) through funding for innovative projects.
- working with others in the cluster to provide a programme of business support (including coaching and mentoring) that will help the businesses to develop solid growth strategies and to access finance.
- providing a letter of intent to fund projects; businesses can use it to attract new private sector investment, because they will probably need to raise other forms of finance (including debt or equity-based solutions), either to match the grant or to support later scale-up plans.

Launchpad competitions are open to SMEs that:

- are in the cluster
- plan to start up in the cluster
- move into the cluster
- collaborate with a company already in the cluster.

Seed Enterprise Investment Scheme (SEIS)

This is designed to help small, early-stage businesses raise equity finance by offering a range of tax reliefs to encourage individual investors to purchase new shares in them.

Maximum investment: £100,000, Maximum tax relief: 50% or £150,000, Investment period: Minimum of three years, Restrictions: To qualify, businesses must have fewer than 25 employees and less than £200,000 in assets.

This is a Government backed scheme and was introduced as a way to promote new enterprise and boost economic growth in the UK.

Small Business Research Initiative (SBRI)

The SBRI is a well established process run by Innovate UK, offering excellent opportunities for businesses, especially SMEs, to develop and demonstrate technology to public bodies.

Successful businesses gain a lead customer for their innovative solutions and retain their IP rights. They receive a contract for the full cost of demonstrating the feasibility of their technology and the offer of subsequent funding for prototype development.

The scheme is particularly beneficial for early-stage and SMEs.

SMART

The SMART initiative is specifically aimed at SMEs, offering various funding opportunities to assist research and development in the areas of science, engineering and technology.

There are three types of grant available:

- Proof of Market – for initial planning, market research and testing. Duration – up to 9 months. Maximum grant - £25,000. Funding proportion – up to 60% of total project costs.
- Proof of Concept – for technical feasibility studies, basic testing and prototyping. Duration – up to 18 months. Maximum grant - £100,000. Funding proportion – up to 60% of total project costs.
- Prototype Development – for trials and demonstrations. Duration – up to 2 years. Maximum grant - £250,000. Funding proportion – up to 35% of total project costs for medium enterprises; up to 45% for small and micro enterprises.

Investment Funding

Business Growth Fund

The Business Growth Fund, with £2.5bn of capital, is a major new equity investor for growing businesses.

They deal with management teams with a good track record, a proven business model and a desire to grow.

Initially, an investment of £2m-£10m of growth capital is made for a minor equity stake and a seat on the board. The funding can be offered for up to 10 years.

Funding is given to privately owned, profitable companies who typically have a turnover of £5m-£100m.

Applications for investment funding are made via the website and can be used for:

- acquiring a supply-chain or competitor,
- enabling expansion of the business,
- sales and marketing or
- product development.

MeWe Trading CIC

This is the investment arm of MeWe360 which combines a not-for-profit development house, MeWe Foundation, with a commercial investment arm (MeWe Trading CIC).

They provide access to funding for selected creative entrepreneurs via their £1 million business incubator and venture fund.

They have two types of membership at incubator level:

- Incubator – for those looking for an intensive package of support to grow their business and possibly work towards selection into the next level, Incubator Plus

- Incubator Plus – those selected into this level will have the opportunity to pitch for investment from the £1 million investment fund.

Membership is by selection only.

The Aspire Fund

The objective of the fund is to increase the number of successful women-led businesses within the UK, ensuring that those with real potential to succeed are not held back through a lack of growth capital and investor interest.

This matches up to 50% investment into women-led businesses in the UK, to help attract investors into SMEs by cutting their risk.

The fund makes investments on equal terms to other private investors. It does not make grants and any investment made by the fund will need to be backed by an equity stake in the business being invested in. It may also include Preference Shares or debt as part of the overall deal.

Minimum investment: £100,000, Maximum investment: £1m, Funding available: £12.5m

This is a Government supported fund managed by Capital for Enterprise Ltd (CfEL).

Mixed Funding

Crowdfunding

Crowdfunding enables individuals and businesses to lend to SMEs for a specific project.

Investors in a crowd funding platform commonly receive a non-monetary return, i.e. a finished product.

The source is low risk, as creating crowd fund campaigns are free and there are no repayment obligations.

While an investor may be able to create a pitch for a potential audience of millions, so do thousands of other projects. Crowd funding websites will also take a set percentage of all donations to a project, meaning the investor will need to raise more funding than originally anticipated to meet targets.

There are two variations of crowd funding:

- Debit crowd funding - is when investors lend money to a company, who then repays the investor on a regular basis. The company has to pay their debts before taking any profits and if the company went under then debtors would get paid first. This is a lower risk form of investment than equity.
- Equity crowd funding - is when investors buy shares in a company and become part owners. They make a return on their investment either by being paid a dividend or by selling their shares at a later date, i.e. when the company value has increased. The board of the company will decide whether to pay a dividend and how much and if and when to sell the business, so this tends to be a higher risk form of investment as there is no guarantee of amounts or timescales for returns. Equity investments should have higher returns than debit investments, to compensate for this higher level of risk.