Financing for Private Businesses in Post-Brexit Britain.

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Introduction.

This report is for senior executives, founders, and business owners who regularly raise capital for their business. We conducted a survey of 250 finance leaders (CFOs or Finance Directors) of medium to large, private businesses in the UK, delving into their financing activity – from sourcing capital through to their future plans. The results are highly insightful, and a little surprising.

Here are just a few of the highlights:

- The majority of those interviewed said the pandemic altered their financing plans, however 67% said they raised as much or more than expected
- 90% prefer to keep the business private as long as possible, however almost a quarter are moving toward an IPO
- Just under a half of those interviewed are turning to private equity financing, however over 80% said they would avoid private equity or VC rounds if they could, due to the oversight and restrictions they bring

With this report, we share the data behind these insights and more. We'll also present other ways to stay private for longer, while retaining greater control.

Smart use of technology makes new forms of investment and capital raising possible, facilitating pools of liquidity for investors without needing to go public, and saving you from drowning in a deluge of administration.

We hope our findings will be useful to you, and give you fresh ideas on your journey to success.

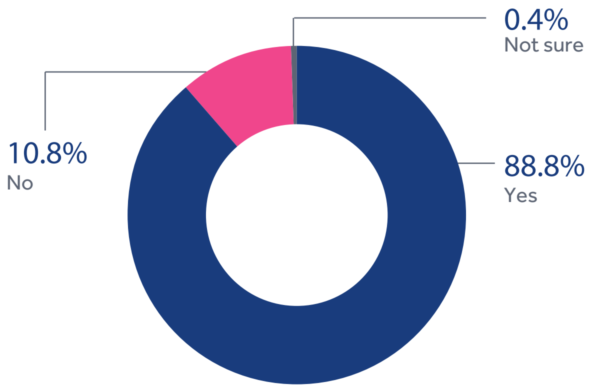
Myles Milston
CEO and Co-Founder | Globacap

SECTION 1:

The impact of the pandemic.

Nine out of 10 private businesses in the UK raised money in the last 12 months.

Has your business raised investment in the past 12 months?

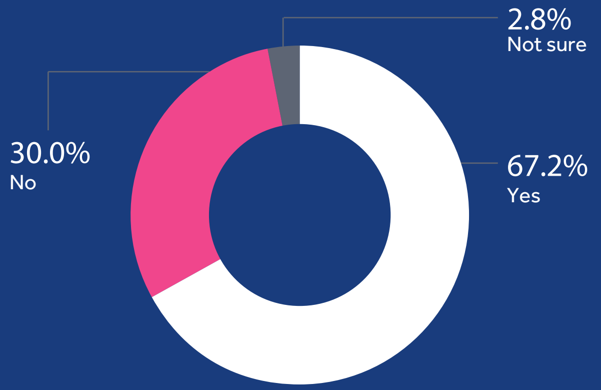


Private company

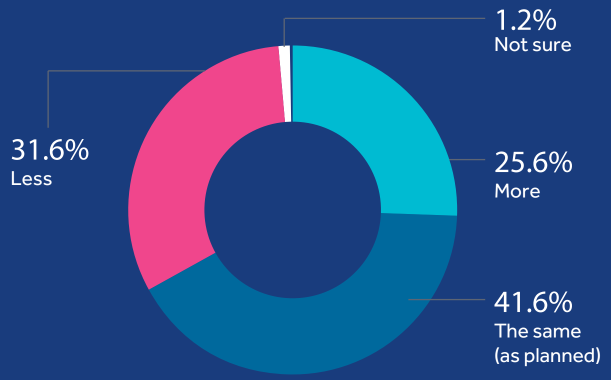
Definition: a private company, for this report, is defined as a Limited company in the UK, rather than a PLC, and also does not have shares traded on a stock exchange.

The natural assumption is that so many companies raised funding in the last year because they were forced to by the impact of the pandemic on their businesses. However, the numbers tell a different story: 32% said they raised less than planned due to the pandemic, while 42% reported raising the same amount of capital they had expected to, and a whole 25% raised more than expected:

Has the pandemic stopped your business raising capital as planned?



Has the impact of the pandemic meant you have raised more or less capital than expected?



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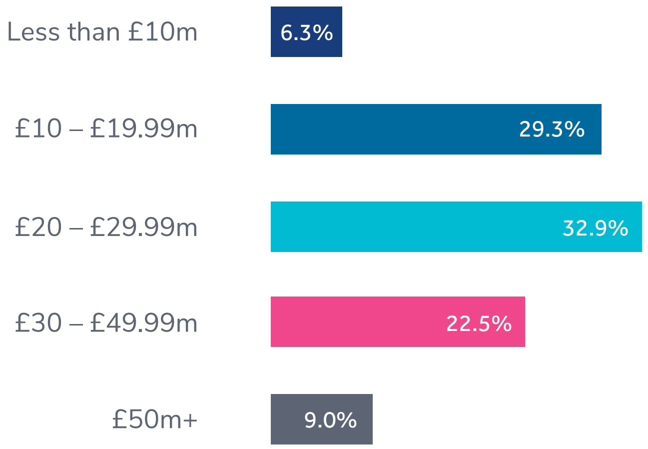
The amount raised was roughly proportional to the size of the business. No surprises on this one:

How much has your business raised in the past 12 months?

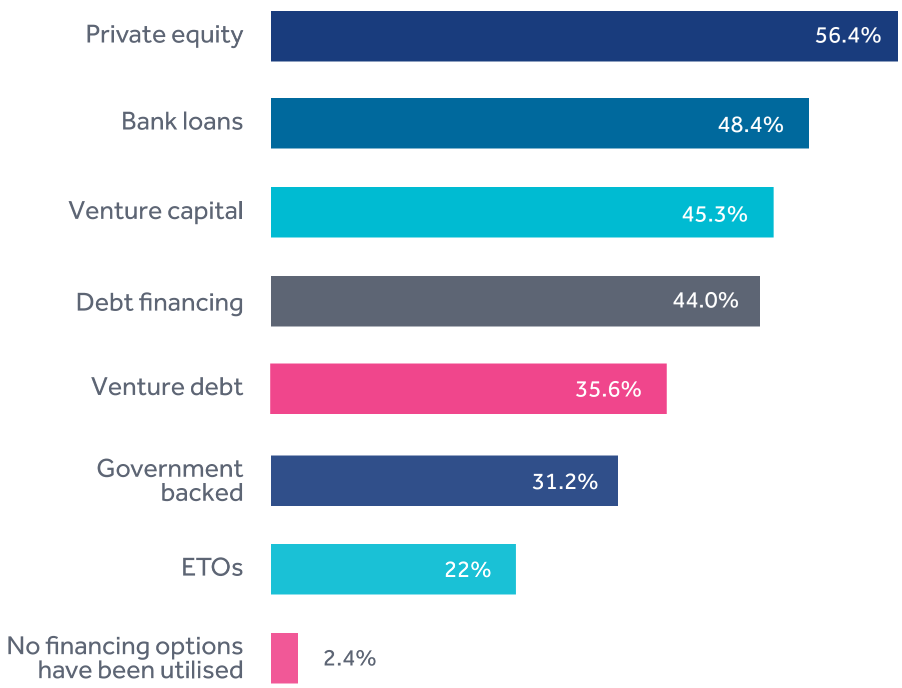


Many companies took advantage of the various government initiatives to support businesses through the pandemic. Where traditionally few businesses have used government-backed funding, now almost a third have:

Government intervention:

Along with business rates relief, deferred VAT and furlough schemes, the UK Government's intervention has changed finance raising options for private companies over the last 12 months. The Business Interruption Scheme and the Coronavirus Bounce Back Loan, for example, are both aimed at SMEs. For larger businesses, there is the Large Business Interruption Loan Scheme, the COVID-19 UK Corporate Financing Facility, as well as grants for specific size businesses across all sectors.

Which financing options, if any, have you utilised for your business before?



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Big decisions

Businesses were forced to make difficult decisions during the pandemic. Eight out of 10 finance leaders changed the way they raise finance, with a majority (59%) deciding to remain private and seek investment via venture capital, private equity, or other private investors. The proportion of businesses intending to remain private was even higher in the North of England, the Midlands, and Wales.

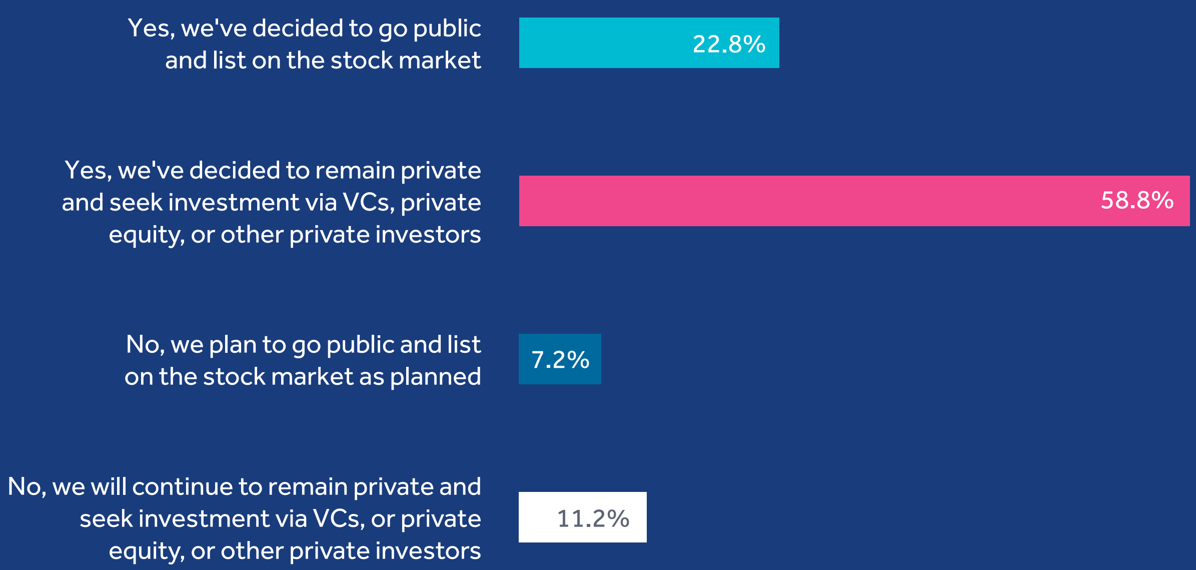
Our data shows the intentions of UK private businesses are clear, with 87% stating that they intend to keep the business private for as long as possible, and hold off an IPO. See more detail on this in section 3: Financing plans.

Their cause will be helped by continued government support. For example, from 6 April 2021, the Recovery Loan Scheme will provide lenders with a guarantee of 80% on eligible loans between £25,000 and £10 million.

Initial Public Offering (IPO)

Definition: Offering the stock of a company on a public stock exchange for the first time.

Has the pandemic changed how you raise capital?



SECTION 2:

Key pain points.

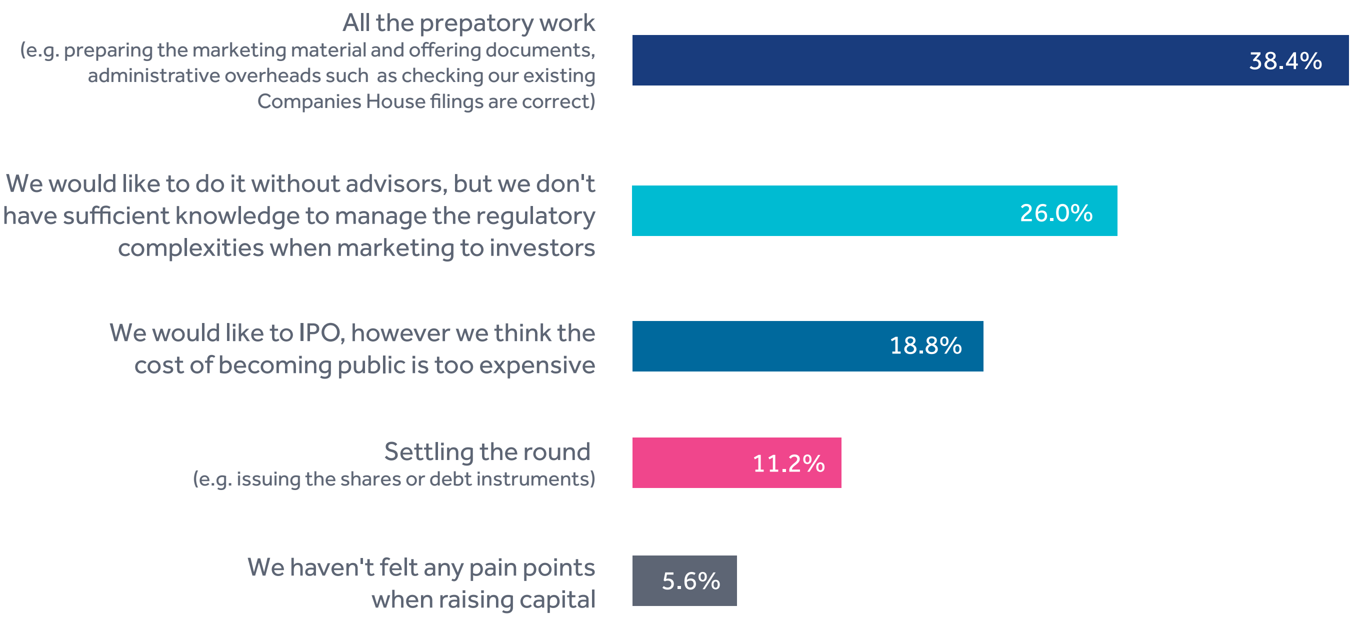
CFOs and Finance Directors reported that preparatory work of their funding round (such as preparing the offering documents and checking previous Companies House filings are correct) was the most painful activity, cited by 38%. Next was the necessity of advisors, with 25% saying they use them only because the business lacks sufficient knowledge to manage the regulatory complexities when marketing to investors.

Interestingly, young finance leaders find the use of advisors most painful (33%), while the 45-54 year-old group find using them the least problematic (9%), which could indicate a structural shift away from using advisors over time. As technology continues to develop at lightning speed, it's possible we will see advisors move into pure 'advisory' work, while all the mechanical, regulatory, and other aspects are automated.

Settling the round

Definition: Issuing the shares or debt instruments to investors, including share certificates, shareholder agreements, loan, or convertible agreements where applicable, updating the share or debt registers, completing regulatory filings, and collecting the investment cash.

What is your biggest pain point in relation to raising investment for your business?



SECTION 3

Financing plans.

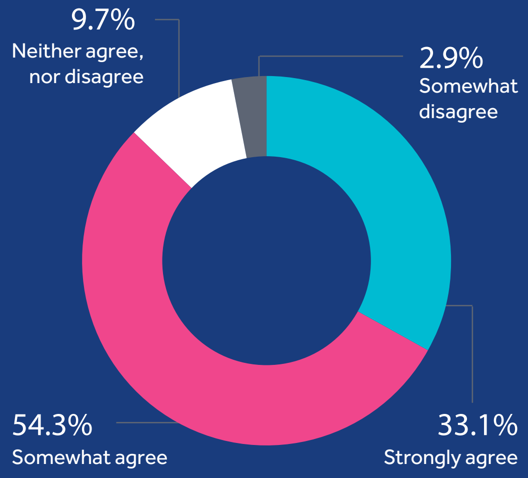
IPOs can be glitzy. When a household name moves to become publicly listed, it often makes front-page news.

However, a public listing also brings loss of control, greater pressure on short-term goals, heightened legal risk, and ongoing reporting obligations, and means employing a team of investor relations staff. That's not to mention the financial expense of the IPO itself, with advisors generally charging between 3% and 7% of funds raised. There are also countless examples of founding CEOs being ousted from their own company – a high-profile example being when Steve Jobs was kicked out of Apple in the mid-80s – while short-term investor sentiment, or panic, can sometimes make or break companies, as the recent furore around GameStop highlighted.

It's no wonder then, that the vast majority of finance leaders want to keep their business private for as long as possible.

Half of the respondents were apprehensive of the administrative work leading to an IPO. Just under half were wary of having an unsuccessful IPO, while a quarter say the cost of going public isn't worth it.

"I intend to keep the business private for as long as possible and hold off on an IPO"



Why are you likely to remain private?

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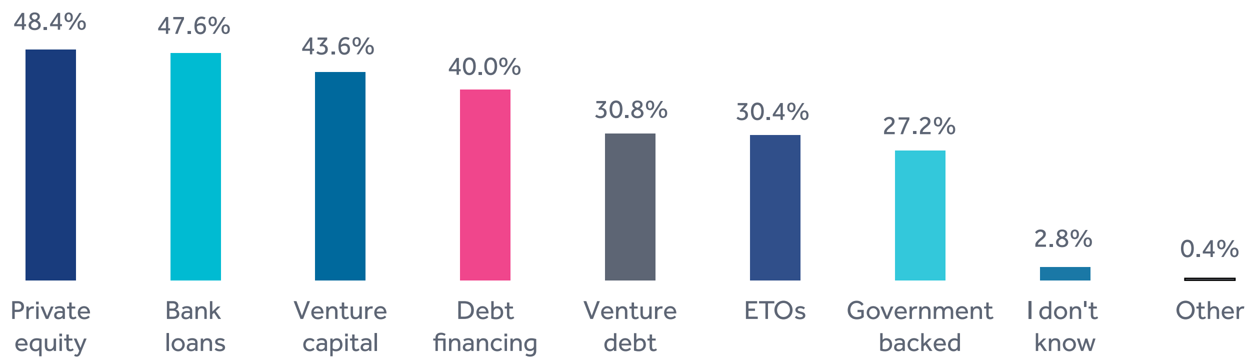
It's good news, therefore, that even in these extraordinarily disrupted times, UK private financing is a resilient marketplace, with over two-thirds of businesses raising as much or more than they had expected in the last 12 months. Considering the net decline in foreign investment due to Brexit, and the extraordinary economic situation due to the pandemic, this is a remarkable outcome.

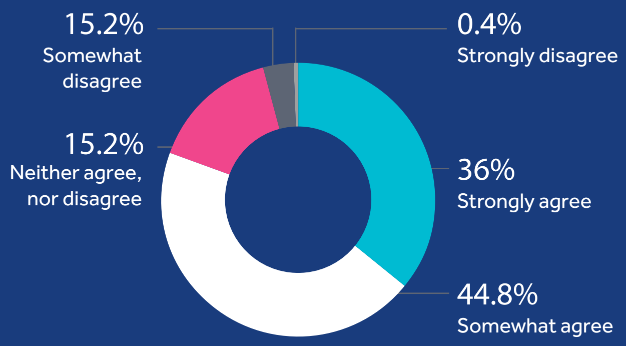
Looking at the next couple of years, our survey respondents told us how they expect to raise further financing, with private equity the most likely.

How do you expect to finance your business in the next 1-2 years?

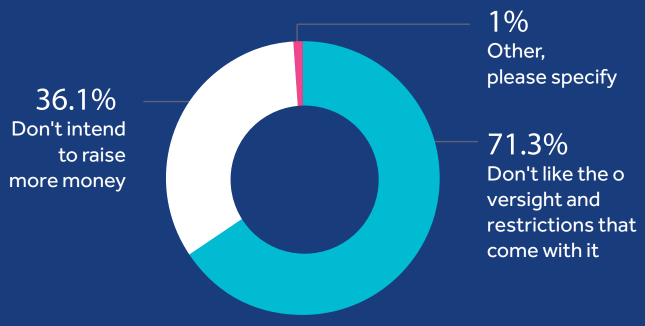


However, 80% of finance leaders also stated that they would prefer to avoid private equity or VC-backed rounds, citing the oversight and restrictions as the main reason. This suggests that most businesses at a certain level feel they have no choice other than to go public or seek private equity financing.

I would prefer to avoid big private equity or VC backed rounds in future



Please explain why you would like to avoid big private equity or VC backed rounds in future



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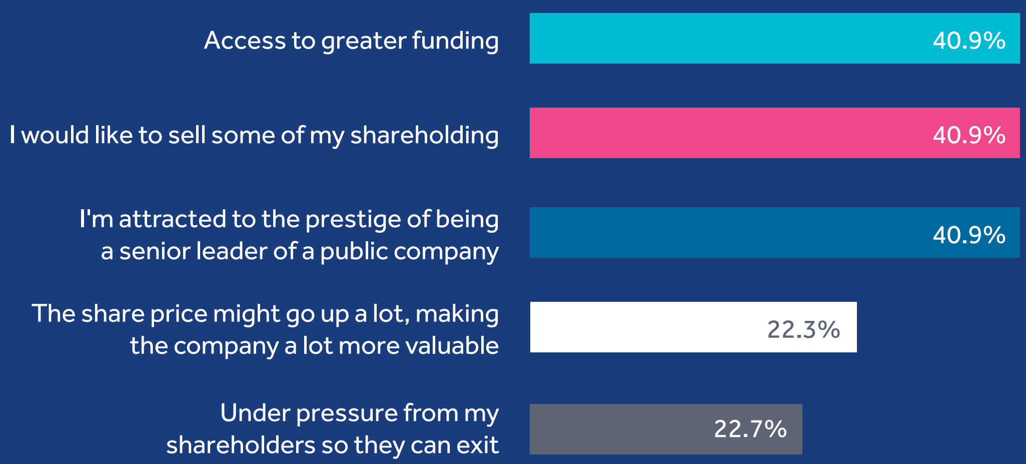
IPO dreaming

We asked our respondents to imagine they had to IPO, and if they had to, how long they would keep their business private. Most (80%) said they would IPO within 1-5 years, with the preference being in the next 1-3 years. Female finance leaders are slightly inclined to hold on longer in such a scenario.

For businesses that would be inclined to go to IPO, the top three reasons were: access to greater funding, selling some of their personal shareholding, and the prestige of running a public company. Almost a quarter also implied that they are under pressure from their shareholders to provide a route to exit through going public.

What are your motivators for potentially doing an IPO?



For those seeking to go public, SPACs have provided a quicker and lower risk route to market. While these vehicles are mainly based in the US, they are starting to creep into Europe. However, while they satisfy all the reasons for going public, they also still come with all the drawbacks of being a public company.

SPACs are essentially a new form of private equity created as a mechanism to facilitate private equity style investment while giving immediate liquidity to investors. In some cases, the SPAC operates in a similar way to a private equity fund, with multiple investments, while in other cases a single SPAC vehicle might only invest in one single company – where the acquired company becomes the main public organisation, akin to a reverse takeover.

SPACs

Definition: Special Purpose Acquisition Vehicles (SPACs) Listed shell companies with a 'blank-cheque' and an express purpose of finding and acquiring targets.

How Globacap helps you stay private.

Choices

Companies seeking large-scale funding have only had two options: seek short-term investors by listing on a public exchange or stay private with long-term private equity investors. Both options have issues. Short-term investors come with less oversight and restriction but going public means greater cost and operational overhead. Private equity, on the other hand, means less cost and operational overhead, but greater oversight and restriction.

Over the last few years, an alternative has appeared around the world in the form of exchanges for private shares. However, many short-term institutional investors can't use these exchanges because they break-down at settlement: investors have to transact directly, performing KYC on each other, and trusting a third party to hold investment cash while waiting weeks for HMRC to confirm stamp duty.

A new and better way

At Globacap we knew there had to be a better alternative, and after considerable technological and financial innovation, found it.

Our Liquidity facility gives investors and stakeholders robust access to liquidity while empowering companies to stay private. Companies host liquidity rounds at a regularity of their choosing. Investors remain unidentified to other investors by facing the company and not each other, while KYC is handled automatically by Globacap, removing two key impediments of the past. Meanwhile, time-consuming overheads like stamp duty, re-issuing share certificates and ensuring the share register is updated correctly are also taken care of automatically and securely.

With this new access to liquidity, companies can attract a larger universe of investors who previously only engaged in public markets, while existing stakeholders have a mechanism to access that liquidity.

This innovation leap has far-reaching implications for the future of the capital markets industry.

Globacap is changing the way businesses manage their capital.

For years, businesses have had to manage their equity, fundraising rounds and investor liquidity in an overly complex way. Globacap is an end-to-end capital management ecosystem, digitising the share asset and enabling automated processes across the whole capital lifecycle of a business.

Over $10 billion of private shares and debt instruments are digitally administered on its platform for 70 companies and over 10,000 shareholders and debt investors. Globacap is regulated by the FCA.

Get in touch today to see how we can also help you and your company's journey to success.

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