Fundraising in the new normal

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IT'S NOT so long ago that I was writing about the importance for young entrepreneurial businesses to plan for the future and protect themselves against the risks of a relationship breakdown. No one could have predicted just a few months later the extraordinary challenges which everyone has faced.

For many entrepreneurs these times of crisis also present opportunities and as we gradually return back to the 'new normal', the availability of funding is going to be one of the crucial considerations, with more options than ever available. So what are the main options?

- Existing stakeholders: The first port of call is usually to speak to your existing investors. They will already be familiar with your business and the documentation is therefore typically less onerous. From the investor's perspective, they can de-risk by subscribing for convertible loans so that the debt they provide now can convert into equity in due course when there is more certainty around growth prospects. There may not be the same tax advantages and investors may instead be eager to invest for more shares now if they get the benefit of SEIS or EIS relief.
- Bank debt: There are more options available than ever with a number of well publicised government-backed loans designed to help SMEs through the stormy waters caused by COVID-19. There is the option of the Coronavirus Business Interruption Loan Scheme (CBILS) with loans of up to £5m (80% being guaranteed by the government). For smaller start-ups, the Bounce Back Loans Scheme gives access to small firms of loans of up to £50,000 without the same eligibility criteria which applies to the CBILS. Those start-ups who focus on R&D also have the option of further grants and loans through Innovate UK.
- The Future Fund: For early stage businesses who have previously raised at least £250,000 in equity investment, the COVID-19 Future Fund allows qualifying companies to apply for convertible loans from the government provided they are matched by private investors. There is strict eligibility criteria and this option doesn't fit with private investors looking to get the benefit of EIS relief on any new investment but the early take up has been higher than expected, ultimately leading to a significant number of owner managed businesses becoming partly owned by the UK Government.
- Venture Capital: VCs will be on the look out to invest in sectors which are not as affected as others by the ongoing impact of the global pandemic. Whether that is renewable energy, technology companies who can thrive through remote working practices or others who are adapting their business to disrupt the landscape of their sector post-COVID there will be opportunities. Typically, this source of funding carries more onerous terms and controls but that is often a price worth paying depending on the valuation at which the VC invests.

We have been encouraged to see the resilience of many companies throughout the recent lockdown, with a number of equity investments completing despite the level of uncertainties posed by COVID-19 and the lower oil price. As many of these businesses start to return to the new normal in the months ahead, we expect to see a continued increase in investment activity so that entrepreneurs can pursue opportunities without immediate cashflow constraints.

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