

# Types of Investment

- Grants
- Loans
- Equity



# Industrial Common Ownership Finance Ltd

- Loan Finance to Employee Ownerships, worker co-ops & social enterprises since 1973.
  - Manager for Co-operative Action Loan Fund
- Sources of Capital
  - Local specific funds (effectively grant)
  - Share Issues (equity)
    - 1987 PLC
    - 1994 Community Capital
  - Community Investment Tax Relief
    - 2003 Co-operative Bank (loan)



# ICOF Offers

- Business loans with terms up to 10 years
- Bridging loans against delayed grants.
- Loans on property or business purchase.
- Loans for capital equipment and working capital.
- Loans to replace inappropriate existing finance.



# and also

- Loan Period - 2 months - 10 years.
- Loan amounts - £5,000 - £100,000.
- Interest rates average 9%
- Appraisal fee.
- No other charges at all.



# What's Needed to Borrow

- Profit: Borrowing has a Cost
- Business Plan
  - Constitution, Membership, Structure etc
  - Overall Financial Requirements
  - Audited Accounts for 2 years if appropriate
  - 2 Year Projections of
    - Profit & Loss Forecasts
    - Balance Sheets
    - Cash Flows



# Grant

- Free money
- Time-Consuming
  - Lots of Forms
- Lack of Independence
  - Need to go back and ask for more: do it all again. Treat as one-off start up



# Loan

- Term Loan
- Investment Loan
- Loan Stock
- Hard v Soft
- Interest Free
- Stepped Interest
- Repayable in Kind
- Repayments tied to turnover / profit



# Features of Loan

- Repayable Debt – a Creditor
- Charges
  - Interest from beginning
  - Other fees: appraisal, monitoring, early repayment; late (rescheduling) repayment
- Needs Profits to Repay
- Control retained
- Relatively Low Risk for Investor



# Financial Equity

- Shares
  - Private Co Ltd By Shares
  - PLC
  - Industrial & Provident Society



# Features of Equity

- Repayable Capital: not Debt
- Charges
  - Dividends / Interest
  - Performance Related
- Needs Profits to Repay
- Control / ownership lost: Voting Rights
- Relatively High Risk
- Need for exit strategy. Is it Patient?



# Sources of Loans

- Banks
- Building Societies
- CDFIs
- Customers / Public



# Sources of Equity

- The Directors
- Customers / Public
  - Stock market
  - Other
- Venture Capitalists
  - Social Venture Capitalists



# What an Investor Looks For 1

- Their money back
  - Via profit, other investors; security
- Financial Return
  - Via dividend; appreciation in share value; interest
- Social Return
  - Structure; jobs created; environmental impact



# What an Investor Looks For 2

- Security (loans)
- Premises
- Customer profile
- Partners (loans)
- Exit Strategy (equity)
- Commitment
  - Of vendor; buyers
  - financial; ownership



# What an Investor Looks For 3

- Structure
  - Simple and Understood
- Skills of workforce
  - Shopfloor
  - Management



# What an Investor Looks For 4

- Gross / Net Profit
- “Drawings” Costs
- Turnover
- Assets; Quality of...
  - Fixed; Liquid; Goodwill?
- Liabilities:
  - Anything hidden; redundancy costs
- Ratios
  - liquidity; gearing (long term borrowings/ owners’ capital); return on capital employed; industry norms;



# What's Right for the Borrower?

- Can you make a profit?
- How Much & How Fast?
- How important is ownership / control?
- How important is financial advice & support?
- Do you have assets?
- Where is your focus: survival / growth?



# You Know Where to Come

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