IGF POWERING FREEDOM REPORT: TWO

Resilient businesses determined to secure bright future

igf INDEPENDENT GROWTH FINANCE

John Onslow
CEO of Independent Growth Finance

EXECUTIVE SUMMARY

Change and uncertainty have played starring roles in the first half of 2019. Political and economic developments, both at home and abroad, have added to the backdrop of nervousness impacting businesses and consumers. While the eventual shape of the post-Brexit UK economy remains unknown, business owners are displaying formidable "business as usual" resilience.

Our bi-annual research of 500 UK business leaders of companies, turning over between £1 million to £500 million per year, found that growth and investment remains high on the agenda. Despite Brexit concerns keeping 93% of business owners awake at night, companies are determined to put their best foot forward.

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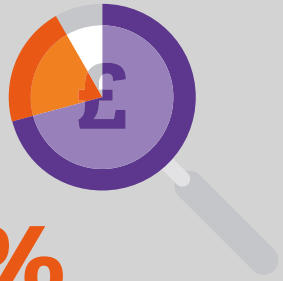

22%

increase in funding sought at the start of the year

75%

seeking funds in the next 12 months

EXECUTIVE SUMMARY

BUSINESSES MORE AMBITIOUS THAN JANUARY, SEEKING 22% MORE FUNDING

Almost three quarters (73%) of SMEs expect growth in the next 12 months – while just one in ten (9%) don't expect to grow at all. Of those anticipating growth, the average amount is 19% – 5% higher than January 2019. Almost two fifths (38%) expect double digit growth; an encouraging increase of 11% on findings from the start of the year.

Three quarters of businesses (75%) are looking to secure funds in next 12 months. On average, they are seeking £1.4 million – up from £1.15 million. A 22% increase on funding sought at the start of the year. The majority of this spending is earmarked for innovation with more investment into technology (44%) and product development (27%) than marketing (25%).

PATIENCE RUNNING LOW AS ECONOMIC UNCERTAINTY CAUSES FINANCIAL HEADACHE

While businesses forge ahead, traditional funding sources have been slowly retreating in a bid to de-risk balance sheets. Worryingly, securing funding is now a challenge for eight in ten (84%) companies. What is more, it's becoming increasingly inconsistent. While one in ten (10%) have secured funding in less than seven days, an almost identical amount (9%) have waited five months or more.

There is growing concern amongst business leaders that without access to suitable funding they won't be able to invest in areas such as retaining staff (30%) and international expansion (16%). As a result, 85% are open to changing their funding provider in exchange for more flexibility (35%), sector-specific expertise (32%) and 48-hour decision-making (26%).

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48-hour decision -making **(26%)**

Almost three quarters of business leaders expect growth in the next 12 months

One in four expect double digit growth - an increase of 11% from the start of the year

EXECUTIVE SUMMARY

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>
> **John Onslow**, CEO of Independent Growth Finance

BIG BOYS' TURNING TO ALTERNATIVE FINANCE, AS FUNDING SPEEDS UP

Traditional finance is on the decline amongst some of the UK's biggest businesses. Four in ten (40%) companies turning over £500 million or more no longer rely on banks as their funder of choice while those generating between £10-£50million have reduced bank funding by 12%.

In contrast, three of the top five funding sources are alternative finance, and they are growing in popularity. Our findings suggest venture capital (30%) is challenging non-bank loans (27%) as a funding choice. While asset based lending (23%) increased slightly in popularity amongst business owners.

As alternative finance continues to rise, the time it takes to receive a funding decision has decreased. It's now 18% quicker to secure funding than it was at the start of the year. The average funding decision now takes just over seven weeks.

ACCOUNTANTS FALL OUT OF FAVOUR AS GO-TO-SOURCE

Quality advice is recognised as essential for well-informed and timely decisions amongst business leaders. The number of businesses seeking advice from accountants has almost halved this year (26% down to 15%) while financial advisers (28%) have overtaken banks (27%) to become the top source to learn about available funding options.

John Onslow, CEO of Independent Growth Finance (IGF), the leading independent asset based lender comments, "It's incredibly encouraging to see so many SMEs focused on the future. Making decisions that are best for them and their employees in an unpredictable landscape. This includes a greater willingness to switch funding providers to get the flexible funding they need, when they need it. Determination to grow and innovate is higher than the start of the year amongst businesses. It's in all our interests that they have access to the right financial support to help them make it a reality."

IGF POWERING FREEDOM REPORT: TWO

RESILIENT BUSINESSES DETERMINED TO SECURE BRIGHT FUTURE

Political and economic developments throughout the year, both at home and abroad, have impacted businesses and consumers alike. Some fear it will be small to medium sized businesses (SMEs) that are hardest hit by ongoing disruption. SMEs account for 99.9% of all private sector business in the country, 60% of private sector employment and 52% of all private sector turnover. They are the backbone of the British economy. Yet, unlike big businesses, they don't have the resources to get their concerns high on the agenda or plan for every eventuality.

The shape of the post-Brexit UK economy remains unknown, yet most have accepted it is now on the horizon. One thing that is certain, is that it has been a turbulent year for businesses up and down the country. They are doing everything they can to remain resilient and focused on the future. Next year, however, is unlikely to be any kinder as we continue to navigate a new economic era.

EIGHT MONTHS ON FROM THE FIRST POWERING FREEDOM REPORT

At the beginning of 2019, Independent Growth Finance (IGF) commissioned the first Powering Freedom Report. We surveyed 500 businesses turning over between £1 million to £500 million. We asked them about their concerns, their hopes and their plans for their businesses going forward. Findings unearthed an encouraging sense of resilience and optimism; businesses were taking control of their future.

As we edge towards the close of this year, we spoke to 500 more business leaders to revisit key themes. Allowing us to determine how the obstacles and opportunities identified across an array of sectors and regions have evolved. Providing a window into UK businesses and sentiment as we continue through this game-changing year. While many would have expected the bullish spirit revealed in January's Powering Freedom Report to have waned under Brexit-related uncertainty, our latest findings paint a more determined picture.

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SWIRLING BREXIT HEADWINDS CONTINUE TO CAUSE CONCERN

Given the current environment, it's not surprising that Brexit keeps 93% of business leaders awake at night. The number of companies that view it as their biggest challenge has increased slightly from 26% to 28% over the course of the year. Only 7% have no concerns at all about the UK's departure from the EU, down from 10%. In the North West of the country, 41% of businesses cite Brexit as their main concern, easily outpacing Greater London and the West Midlands, both of which are more concerned about labour markets. Sector wise, food & drink, oil & gas and manufacturing firms register the highest levels of Brexit-related concern (43%, 42% and 40% respectively). Likely due to the nature of their supply chains and potential exposure to tariffs that could result from Brexit. As well as other global trade developments, which have already impacted manufacturing activity in powerhouse economies like Germany and China.

Only 7% have no concerns at all about the UK's departure from the EU, down from 10%

DETERMINED BUSINESSES RAMP UP GROWTH ASPIRATIONS

Despite these continued concerns, UK businesses are responding with determination. Our research finds that, across the board, revenue growth expectations have not just prevailed but have strengthened. Almost three quarters (73%) of companies now expect to see revenues grow compared to 69% in our last report. Of those anticipating growth, the average amount is 19% – 5% higher than January 2019. Similarly, more businesses also anticipate double-digit growth (38% versus 34%), an encouraging increase of 4% on findings from the start of the year. Just one in ten (9%) don't expect to grow at all (down from 11%).

The number of companies anticipating up to 10% increase in revenues over the next 12 months has fallen (54% versus 44%) yet the number expecting more than 40% growth has doubled (6% versus 14%). Companies with a turnover of £500 million or more forecast growth of 34% on average – four times higher than our last report (9% growth).

In terms of growing their footprint, more companies are now aiming for growth beyond the single market. Sixteen percent are targeting non-EU markets and 15% EU markets in expansion plans, rising by around 4% and 5% respectively.

One in five (21%) Manchester-based companies plans to invest inside the EU, yet they have just half the appetite for other markets (13%). In the capital, 30% of businesses are concerned about the impact Brexit is going to have on their ability to expand overseas.

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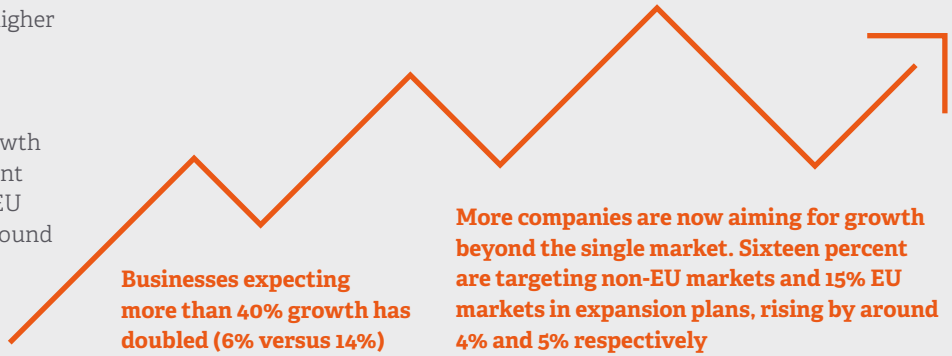
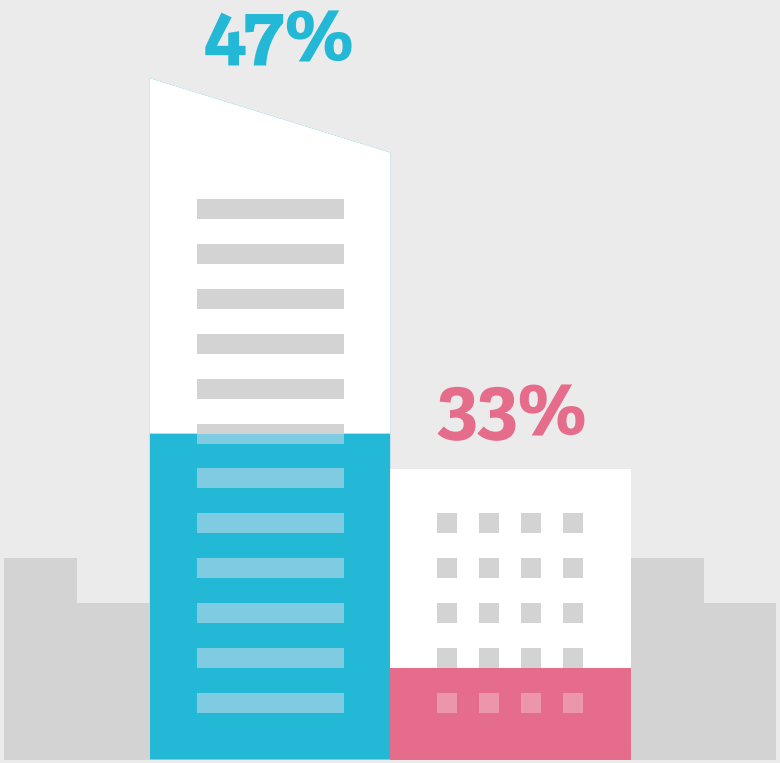


Businesses expecting more than 40% growth has doubled (6% versus 14%)

More companies are now aiming for growth beyond the single market. Sixteen percent are targeting non-EU markets and 15% EU markets in expansion plans, rising by around 4% and 5% respectively

> **Companies of all sizes are looking for funding; almost half (47%) of larger enterprises and a third (33%) of SMEs are looking for more than £500,000.**



COMPANIES LOOKING FOR £1.4 MILLION FUNDING ON AVERAGE – 22% MORE THAN START OF JANUARY 2019

Three quarters (75%) of businesses plan to seek funding, be it to grow their footprint or their revenues, which 73% of businesses expect to do over the coming 12 months. On average they are targeting funds of £1.4 million - a fifth more (22%) than businesses were seeking at the start of the year. Companies of all sizes are looking for funding; almost half (47%) of larger enterprises and a third (33%) of SMEs are looking for more than £500,000.

Funding targets have increased in almost every bracket. Sixty-two percent of businesses are now looking to secure £250,000 while 38% are seeking £500,000+ in the next year – up from 52% and 26% respectively. There is also movement further up the scale with funding between £500,000 and £1 million increasing a third (up from 14% to 21%).

The majority of this funding is designated for technology and product development.

75%

of businesses seeking funding

£1.4m

average funds sought - a fifth more (22%) than businesses were seeking at the start of the year

72% OF SPENDING EARMARKED FOR INNOVATION

Looking at key investment areas, innovation is top of the table for spending plans, focused on technology (45%) and product development (27%). Taking over from the sales and marketing focus seen in the first report. Staff retention (30%) and marketing (25%) were also identified as key.

Nevertheless, the desire to invest in developing new products and services points to positive sentiment and highlights the entrepreneurial approach synonymous with UK companies. The East of England and East Midlands dominate the push for product development (50% and 35% respectively), while Greater London and the South East expect to plough more money into technology (48% and 41% respectively). Holding onto staff appears to be more of a focus across the West Midlands (35%).

We can only speculate that systems and software that lend themselves to saving time and cutting costs are on the agenda. Artificial intelligence, which has proved to be a magnet for investment and possibly even cyber security may also play into these high IT spending intentions.

Cyber security continues to demand an increasing amount of attention and budget among larger companies in particular. Following a number of high-profile data breaches, greater accountability has been placed on protecting customer data under General Data Protection Regulation. In the fourth quarter of 2018, insurer Hiscox[viii] suggested that every day, UK SMEs were the target of around 65,000 attempted cyber-attacks, with cyber breaches costing the average small business £25,700 a year in 'clear up' costs.

72%

of spending earmarked for innovation

INVESTMENT AREAS:

- Technology (45%)
- Staff retention (30%)
- Product development (27%)
- Marketing (25%)

> **The desire to invest in developing new products and services points to positive sentiment and highlights the entrepreneurial approach synonymous with UK companies.**

LABOUR MARKET CONCERNS MOUNT, ESPECIALLY AMONG SMEs

With currency weakness, low unemployment levels and skills shortages putting upward pressure on wage costs, the labour market makes up almost a third (31%) of key concerns amongst businesses. Finding the right staff (17%) and staff retention (14%) feature second and third on business leaders' list of challenges – yet combined they are 3% higher than the number one concern of Brexit.

Firms in Greater London and the West Midlands note staffing as a key concern. Brexit-related labour costs also feature more prominently on the radars of companies in Greater London and the East of England. This is evidenced by concerns over the cost of labour rising by almost 10% and 18% in these regions. Across the board, firms appear to be more interested in spending to retain existing staff (30%) rather than making new hires (26%).

SMEs of 10-49 employees indicate concerns around the workforce; notably their ability to attract (29%) and hold (21%) the right staff. This was reflected in the segment's investment priorities, with 24% and 21% respectively earmarking finances for staff retention and acquisition over the coming year.

For companies with over 250 employees, 28% see Brexit as their biggest challenge. The potential impact it could have on labour costs is a concern for almost three out of ten companies (28%) in this segment.

The labour market makes up almost a third (31%) of key concerns amongst businesses
– right staff (17%)
– staff retention (14%)
– combined they are 3% higher than the number one concern of Brexit

> **In the Oil and Gas sector, while the pace of recovery is likely to remain slow, the market direction is positive. Growth-wise, we're putting the funding received from IGF to good use and are on track to deliver on our budgeted increase in revenues we predicted for our financial year.**
>
> **Pryme Group,** CFO and IGF client, Kerrie Murray

98% OF OIL & GAS AND CARE FIRMS ARE LOOKING TO RAISE FUNDS, BUT IT REMAINS A CHALLENGE

Among the different sectors, manufacturing firms emerge as the least likely to have sought funding previously (23%) or seek funding in the near term (38%). Yet, interestingly, almost a third (30%) in this sector claim they face no challenges in securing finance. Regionally, South East businesses show the least appetite for securing funding over the coming year; just 68% of businesses are looking to raise funds versus 75% nationally.

At the other end of the spectrum, 98% of both oil & gas and care firms are looking to raise funds; around half (60% and 47% respectively) are looking to secure more than £500,000. Yet amongst those looking for funding across all sectors, financial firms are looking to raise the most, targeting an average of £2.2 million.

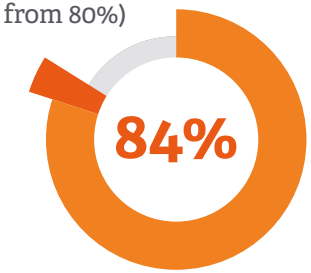
However, the process of securing the cash required remains inconsistent and arduous, resulting in 84% of companies admitting to finding it challenging (up from 80%).

98%

of oil & gas and care firms are looking to raise funds

60% and 47% respectively are looking to secure more than £500,000

84% of companies admit that securing funding is challenging (up from 80%)



INCONSISTENT FUNDING – UNNECESSARY AND UNWELCOME

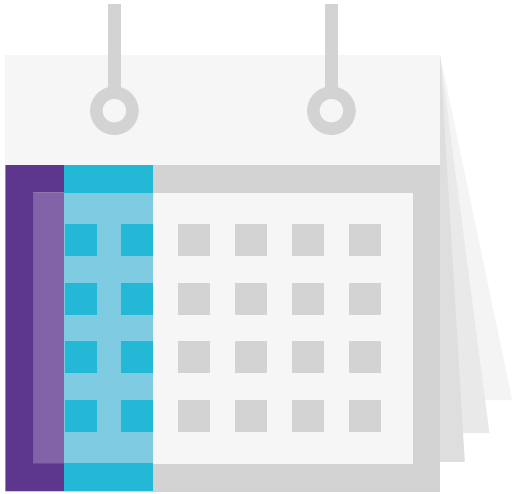
While research indicates businesses are determined, traditional funding sources have been slowly retreating in a bid to de-risk balance sheets. There is real concern that without reliable access to funding, the outlook for UK companies, particularly small- and medium-sized enterprises (SMEs), could experience a downturn. The UK could miss out on opportunities to become home to future leaders in innovation and enterprise at a time when they are needed most.

The increasing inconsistency that surrounds securing funding is becoming a red flag as it inhibits the ability to plan. While one in twelve (8%) businesses have secured funding in less than seven days, more than one in seven (14%) have waited five months or more.

While this inconsistency may be a factor of the level of funding sought, it could also point to a tougher borrowing environment. As economic growth slows, lenders become more cautious and the costs of borrowing and servicing credit potentially increase.

Whatever the root cause, there is growing concern amongst business owners that without access to reliable funding they won't be able to invest in areas such as retaining staff (30%) and international expansion (16%).

FUNDING INCONSISTENCIES:



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> **Whatever the root cause, there is growing concern amongst business owners that without access to reliable funding they won't be able to invest in areas such as retaining staff (30%) and international expansion (16%).**

FUNDING PICKS UP THE PACE

On the upside, the average time taken to receive funding decisions shows signs of improving, falling from nine weeks to just over seven weeks overall – 18% quicker. Funding taking longer than a month dropped from 44% to 39%. Amongst companies with annual turnover of over £50 million, only two in ten (18%) funding decisions now take over three months; previously this was closer to one in four (27%).

Despite this positive finding, inconsistency rears its head once again. Large enterprises (500+ employees) continue to report longer wait times for funding decisions than SMEs, with one in three (33%) waiting at least three months for an answer. Yet interestingly, twice as many SMEs are now also waiting longer, with 14% of funding decisions taking three months or more compared to 6% at the start of the year.

As a result, 85% are open to changing their funding provider – up from 81% at the start of the year.

SMALL CHINKS FORMING IN BANKING ARMOUR

UK banks have become progressively cautious on lending to SMEs over the past year. The UK economy contracting in Q2 2019 [v] could strengthen the argument for leaning towards a cut, rather than a rise, in interest rates[vi].

We expect that the withdrawal of funding from banks may have contributed to the shift in funding sources seen in our results, which shows a trend towards alternative finance options among SMEs.

While banks remain well represented as sources of funding and advice for businesses, they have lost some of their popularity to alternative finance providers and financial advisers respectively. The number of businesses opting for bank-backed financing has dropped to 63% compared to 65% at the start of the year.

Size-wise, businesses with £100 million to £500 million turnover remained the least likely users of bank funding (51%). While a fifth (21%) of companies turning over £500 million or more no longer rely on banks as their funder of choice. Those generating between £10-£50million have also reduced bank funding by 13%.

63%

are opting for bank-backed financing - down from 65% at the start of the year

51%

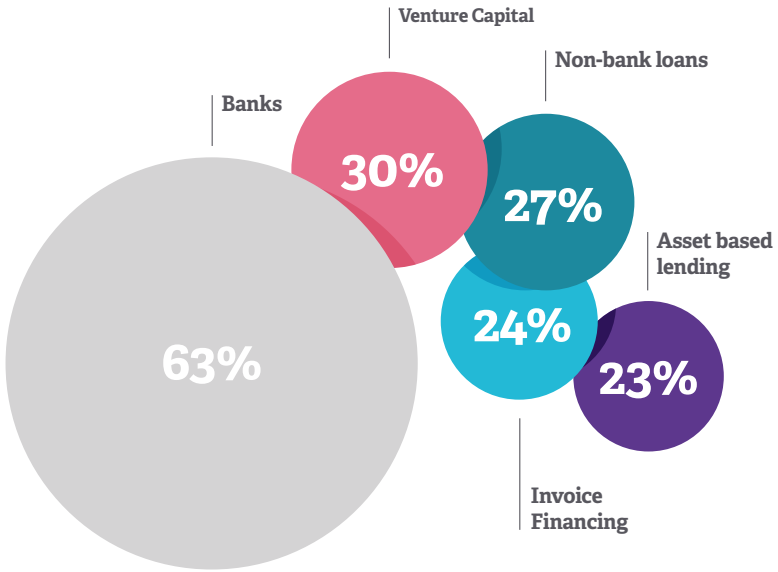
of businesses with £100 million to £500 million turnover remained the least likely users of bank funding

THREE OF THE TOP FIVE FUNDING SOURCES ARE ALTERNATIVE

In contrast, three of the top five funding sources are alternative finance, and they are growing in popularity. Our results show venture capital (VC) leapfrogging non-bank loans, which fell back from 30% to 27% as a top-three funding source. VC funding proved an increasingly popular option, sought by 30% of businesses, with a particularly strong appetite among the 25 to 34-year-old demographic (37%).

Personal cash injections, overdrafts and invoice financing all fell back slightly as funding sources, while asset based lending (ABL) gained small steps, moving up from 21% to 23%.

TOP FIVE FUNDING SOURCES:



> **While we've been adding to our target markets, diversifying into other sectors like healthcare, aerospace and defence, we've also been consolidating our lenders. We are continuing to move away from traditional funding. Instead working with key partners in the alternative finance space so we can be nimbler. Independent Growth Finance is our biggest lender. Not only does this make the decision-making process simpler and less time consuming, but it allows us to build ongoing relationships, which is key.**
>
> **Pryme Group**, CFO and IGF client, Kerrie Murray

UK 'BIG BOYS' LEAD THE CHARGE TOWARDS ALTERNATIVE FUNDING

Strong demand for ABL has emerged among smaller enterprises, increasing from 9% to 21%, and the manufacturing and utilities (26%) and IT and telecoms (24%) sectors. Nevertheless, large corporates are the biggest advocates of ABL as a means of funding (30%). Angel investors also gained notable traction in this segment. Among companies boasting over £500 million in annual turnover, popularity increased from 18% to 28% respectively.

Geographically, more firms in London named banks and non-bank loans as their top sources of funding (65% and 30% respectively) whereas Manchester-based businesses showed a preference for VC funding (43%) and asset-based lending (29%). Meanwhile, at the sector level, our results showed manufacturing & utilities firms leaning towards banks (77%) while oil & and gas, and to some degree, food & drink, firms opting for alternative financing avenues.

> **From an advisor's perspective, flexibility, structure and quantum of funding for clients far outweigh all other considerations. Businesses are looking for the best outcome to match their needs and long-term goals. We speak with more and more businesses that want to work with lenders who can provide clear, flexible, and committed funding solutions, whether this be sector expertise or the mutual understanding for the specific needs of the client.**
>
> **Dave Edwards**, Partner, FRP Advisory

FIRMS MORE EASILY SWAYED BY FLEXIBILITY AND SECTOR EXPERTISE

Overall, traditional funding providers have lost some of their stickiness. There is a greater willingness amongst business decision makers to switch providers in a bid to get the funding they need. Now only one in six (15%) are not open to switching, down from 19%. Key drivers sparking a desire to change providers include access to more flexible or bespoke funding options (35%) – up from 31%.

Aligning with providers that offer the benefit of sector expertise (32%) - up from 27% - and 48-hour decision-making (26%) are also identified as a reason for change. Likewise, having a funding team to work alongside management throughout a project proves an attractive proposition for one in four (24%) business owners.

When it comes to seeking advice, respondents are more interested in having sector expertise and quick decision making to help them on their journey than a proven track record (16%). Working with funding partners that can add value because they understand your business and work alongside you may not seem as important when all boats are rising—but it's imperative when they're not.

What's driving SMEs to consider changing their provider?

35% More flexibility

32% Sector-specific expertise

26% 48-hour decision-making

UK BUSINESSES DISHING OUT THE DETERMINATION

Business leaders are realistic. They are aware of the uphill challenge that potentially awaits them around the next corner. Yet the overwhelming ambition to not only 'stay calm and carry on' but also grow in a unpredictable environment is something we should be proud of as a nation.

UK businesses have set the bar high in terms of optimism and determination to succeed. But while they are forging ahead, one key concern remains. Funding sources will likely retreat further, reducing the capital available to keep growth ticking over in the UK economy.

It's in all our interests that we listen to them, advise and support them but most importantly be respectful of their need to remain agile in a fast-changing environment. They have the growth aspirations and we have the resources needed to make it a reality. It's in all our interests that the two continue to align.

> **SMEs are realistic. They are aware of the uphill challenge that potentially awaits them around the next corner. Yet the overwhelming ambition to not only 'stay calm and carry on' but also grow in a unpredictable environment is something we should be proud of as a nation.**

A TALE OF THREE CITIES

GREATER LONDON

Breaking out across some of the major cities, one in three (31%) Greater London-based businesses put Brexit at the top of their list of challenges. Within this, 60% are most concerned about the potential impact it will have on the UK economy, particularly in relation to trade (37%) and supply chains (33%).

Of those expecting growth, 59% expect double digits. To make this a reality they have bold plans. Eight in ten (85%) intend to raise funds - £1.44 million on average - and 95% are looking to invest. Of those looking to raise funds almost half (45%) are seeking more than £500K. Technology looks set to be the biggest recipient of this spend, with nearly half (48%) of those surveyed earmarking the sector for investment.

Expansion plans are also alive and growing, with one in five companies in London looking to extend their footprint in the EU (21%) and beyond (22%).

In terms of securing funding to support their investment, for a fifth of London SMEs (22%), the biggest challenge is having their requests rejected. However, 54% of those that have received funding report waiting less than a month, with 26% having a decision delivered in under two weeks.

Venture capital and asset-based lending are an increasingly popular source of funds for companies in London, ranked as top four choices by 35% and 25% respectively. Flexibility and access to sector expertise (43% and 32% respectively) are key attributes Greater London firms look for in a funding provider.

> **Given the competition for certain skillsets such as machinists and programmers, retention of people is key in our industry. Businesses need to invest even more heavily—both timewise and financially—to ensure staff are heard, happy and productive.**
>
> **Pryme Group**, CFO and IGF client, Kerrie Murray

MANCHESTER

Businesses in Manchester (97%) are overwhelmingly gearing up to invest over the coming year, more than their capital city counterpart, London (95%). Over nine in ten (91%) are looking to secure funding.

However only three in ten (29%) are looking to spend on product development. A larger proportion of the city's firms are eyeing technology (47%) and marketing (42%) as key investment areas.

When asked about the biggest challenge facing their business, 39% of Manchester-based firms say Brexit – more than London and Birmingham (31% and 25% respectively). This may also be reflected in their commitment to investing almost twice as much into expanding inside the EU (21%) than outside (13%).

Like London, the biggest challenge for firms in Manchester looking to secure funding is having their request turned down (23%). While one in five (21%) of the city's respondents that received funding report waiting over three months for a decision, most (58%) were told within four weeks of their application and 39% in under three.

On average, Manchester businesses are looking to secure £130,000 more in funds than their London counterparts. While half (53%) look to secure more than half a million – versus 42% in London.

Interestingly, banks remain the key source of funding in Manchester at 60%. Crowdfunding is also proving popular, up from 10% to 14%. Flexibility and fast decision making are key to persuading these companies to switch funding providers. Yet a relationship with the funding team (27%) is more important than sector expertise (24%), preferential terms (24%) and a proven track record (22%).

BIRMINGHAM

Moving west, 19% of businesses in Birmingham have never received any funding, while almost three in ten (30%) say they are not looking to invest in the coming 12 months. Yet for those that do look to financial partners, having funding rejected remains the biggest concern (18%). Only 70% expect to seek funding to drive investment over the next 12 months, with 40% intending to allocate funds to tech spend. Investment for these firms is centred on innovation and on the labour front, yet acquiring members of staff (16%) is less of an investment priority than retaining them (34%).

Interestingly, the impact Brexit is likely to have on business growth remains less of a concern for Birmingham (24%) than both Greater London (31%) and Manchester (39%). Of those expecting growth in Birmingham, the average is 13%, half the growth expectations of both Greater London (25%) and Manchester (26%).

On average, Birmingham-based businesses are looking to secure funds of £870,000, whereas their North and South counterparts are looking for significantly more (Manchester, £1,63 million and Greater London, £1.44 million).

Despite being the least likely to secure funding out of the three cities, Birmingham-based businesses are more likely than Greater London (19%) and Manchester (24%) to use invoice discounting (29%) as their finance of choice. Interestingly they are also twice as likely as their northern counterparts to use their overdraft as a source of funding (21% vs 11% respectively).

BIRMINGHAM TOP FIVE INVESTMENT

- Technology (40%)
- Staff retention (34%)
- Marketing (20%)
- Product Development (19%)
- Staff Acquisition (16%)

> **There is a lot of nervousness about Brexit internally, particularly in relation to how our customers will react and the impact on cost from our supplier base. Despite these ongoing challenges though, we are still on track, continuing with our invoice and asset-based funding, to enable growth. What makes the difference is being confident that our budget and plans provide sufficient flexibility to react to external developments if and when they unfold.**

Pryme Group, CFO and IGF client, Kerrie Murray

Case study: SES Holdings Group

SES Holdings Group secures £7.5 million funding from IGF to overhaul financial structure

In 2004, the then parent company of Specialist Engineering Services Ltd (SES), one of the UK's premier railway and civil engineering providers, acquired the business assets of TEi Ltd and brought it into the SES Holdings Group. SES already held an impressive client portfolio, including Network Rail and Transport for London. TEi Ltd, a leading engineering manufacturing and installation organisation, continued to prosper under the SES Group. As a result, SES Holdings developed into a circa £50 million turnover Group.

In 2017, another subsidiary trading company under SES Holdings experienced cash flow challenges. A common occurrence amongst SMEs. However due to the cumbersome and connected funding structure across SES Holdings, it caused an unexpected, and unwelcomed, financial ripple effect. TEi Ltd and SES, two successful subsidiaries generating £26 million and £10 million turnover per annum respectively, began to feel the strain. Something needed to be done and quickly.

Flexibility key to adapting

The decision was taken to dismantle the Group. SES Holdings approached its financier to enable its businesses to separate and operate on their own merits. Providing each company with its own line of funding would ensure they would continue to flourish and innovate.

Although the board anticipated a quick and easy solution this was not available from its traditional financier. Dave Hyland, managing director, SES, explains, "We very quickly came to the end of our journey with our existing provider of invoice discounting finance. Despite being a successful Group turning over £40 to £50 million every year, when we needed their support and flexibility the most, they could not provide the service we needed. Inevitably we went on the search for a new financier. We needed a funder who offered us not only quick and flexible funding, but more importantly a partnership."

SES Holdings needed to move fast to find a new funder to minimise the financial impact being felt across the Group and provide the very solution its traditional financier could not offer.

Selecting a partner, not just a source of funding

SES Holdings turned to Independent Growth Finance (IGF) to restructure the group's finance and support ongoing working capital. Dave Hyland continued, "Selecting IGF was an easy choice. They listened to our ambitions and challenges and understood the urgent need to completely restructure our finance. They promised a timely transition and funding certainty and absolutely delivered on it."

IGF provided SES with £2.5 million invoice discounting and TEi Ltd £5 million. IGF was able to provide better rates for SES and TEi Ltd compared to their previous financing structure. In May 2018, just weeks after partnering with IGF, tailor made funding facilities were rolled out across SES and TEi Ltd.

Gaining freedom to continue on the track to success

Richard Spielbichler, ABL Director, Independent Growth Finance, said, "Companies across all sectors need to adapt and evolve at stages during their lifetime. In many instances it is due to growth or expansion. Sometimes however those situations are forced upon companies and they immediately turn to their lending partners for advice, support and funding. At IGF we have genuine empathy for companies with entrepreneurial spirit who come to us to discuss ways to adapt. Providing SES and TEi Ltd with a total of £7.5 million invoice discounting to enable a financial restructure was a straight forward decision for us. Ultimately it has allowed both companies the freedom to continue prospering and innovating."

Following the funding roll-out, both companies have secured the freedom and financial backing to continue to execute major projects and provide expert service across their respective sectors; both now prospering under their own tailor-made financial structure.

> **"We needed a funder who offered us not only quick and flexible funding, but more importantly a partnership.**

Case study: Pryme Group
Pryme Group forecasts 20 percent growth in 2019

Pryme Group, a provider of integrated manufacturing solutions for the oil and gas, aerospace and defence industries, has grown at pace over the last ten years. Looking at the company's achievements today it's hard to believe that just three years ago the sector underwent a period of significant downturn across the oil and gas industry. Pryme Group had a term loan in place to navigate the downturn, however in 2017 forecasts indicated an uplift in sales was expected the following year. To take advantage of this opportunity Pryme Group would need to significantly increase its working capital. The Group turned to Independent Growth Finance (IGF) for financial support.

While many lenders would view a sector in decline as a potential funding risk, invoice discounting and asset based lending are more secure forms of finance due to the collateral they are based upon. This enables funders like IGF to see the glass half full and make more flexible funding decisions, which has resulted in year-on-year growth for Pryme Group.

40 years of advanced and diverse services

Dating back 40 years, Pryme Group offers turnkey services for contract manufacturing solutions. It integrates high quality machining with advanced design, engineering, hydraulic services and fabrication skills across seven divisions. Pryme Group works with global clients, including Siemens, WL Gore & Associates and Halliburton.

However, in 2015/2016, the oil and gas industry took a downward turn which had a significant impact on this newly formed Group.

Funding through an industry downturn

Despite an unsettled period, Pryme Group's senior management forecasts indicated 20 percent sales growth in 2018. To leverage this opportunity, it needed a funding partner who would provide working capital and make preparations before the industry uplift.

Securing a £2.75m invoice discounting facility in 2017 allowed Pryme Group to focus on the future and quickly react to the changing landscape. Within six months of securing the funding, growth and capability aspirations were being realised.

Financing future lift off

In December 2018, IGF increased Pryme Group's funding facility to £4.5m to further support its expansion into the defence and aerospace industries. Pryme Group is now forecasting a further 20 percent growth in 2019.

Kerrie Murray, Pryme Group CFO, said, 'Just two short years after a shaky period for the gas and oil industry we are now in a position of strength, with more people, capabilities and capacity than ever before.

"We had never approached a funding partner before, so you can imagine it was a big decision for us. IGF got to know the company and the management team which has helped us achieve a great working relationship. We are a much bigger business today than when we approached IGF back in 2017."

Jon Hughes, commercial director ABL, IGF added, "There's nothing I enjoy more about my job than supporting a partner through a period of downturn and watching them come out the other side stronger than ever. Innovators need support from funding partners to ensure they don't suffer in the long-term because of short-term factors outside their control."

Case study: Thames Technology

Thames Technology capitalises on fintech market with £3.9 million facility

Thames Technology (Thames) develops, manufactures, personalises, and distributes payment, gift, loyalty, and commercial cards. Anything with a magnetic strip or chip. It manufactures over 200 million cards every year, distributing to over 60 countries. Customers range from government bodies and retail giants to fintech and holiday firms, with 30 percent of business generated by export.

Transforming family-business to corporate entity

Following investment by BGF, the Business Growth Fund, in 2013, Thames has been steadily transforming into a professionally managed corporate. A new senior leadership team brought in to drive investment and change across the organisation. Providing outstanding service, delivering larger contracts and innovating its product offering in an extremely buoyant market.

Maximising assets and opportunities

During the early stages of the transformation, Thames partnered with an asset based lender. In 2018, however, Thames approached Dave Edwards, Partner at FRP Advisory, to source greater working capital and ensure the liquidity of its assets was being maximised. The increased funding was vital to continue on its transformational journey and pursue further market growth. It wanted a flexible lender who would understand its growth aspirations and the momentum of the market.

IFAs can help you secure the right facility

The year prior, Thames invested £2 million in plant machinery, a huge asset - and opportunity - that was underutilised. Dave Edwards analysed several ABLs and concluded that Independent Growth Finance (IGF) offered the strongest asset based lending facility. He explained, "Our role in these situations is to put rigour in the process. We speak to six or more shortlisted lenders, secure terms from at least half of those and finally filter down to one or two. This means clients can be sure they are getting the best outcome; the highest amount of lending, ongoing certainty, and flexibility."

In total, £3.9 million was secured in the form of invoice discounting and plant and machinery.

"We hadn't crossed paths with IGF before," explained Robin Hilton, "until they were presented to us by FRP Advisory. They really got to know us; recognising the momentum in the market and our transformational achievements. During the process, they met every single deadline and provided us with a level of flexibility that we were delighted with. Their approach was to create a facility that supported and worked with us. They delivered exactly what we needed."

Mike Fletcher, ABL director, IGF added, "Our core purpose is to support the growth aspirations of UK SMEs, yet many of the clients we work with are simultaneously facing both opportunities and challenges. This is where alternative finance can help. While many traditional lenders will only see the challenges, we saw a game-changing opportunity that could be funded by secure assets. This enables the team to focus on doing what they do best in an extremely exciting market."

Tap-and-go to the future

Last year saw order volumes increase and Thames anticipate sales will continue growing by around 20 percent through 2019. By March 2020 the company expects annual contracted turnover of £16 million.

> **We speak to six or more shortlisted lenders, secure terms from at least half of those and finally filter down to one or two. This means clients can be sure they are getting the best outcome; the highest amount of lending, ongoing certainty, and flexibility.**
>
> **Dave Edwards,** Partner, FRP Advisory

APPENDIX

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About Independent Growth Finance Ltd (IGF)

Independent Growth Finance (IGF) has been funding the working capital and growth aspirations of UK SMEs since 1997, and works with businesses with a turnover of £1m to £100m.

Founded on expertise, IGF is a leading independent asset based lender with a national presence, and strong entrepreneurial culture. Its deep understanding of SMEs and the challenges they face means it knows what it takes to build and grow a successful business.

IGF funds businesses that want to grow and seek to be the best they can be, whether through MBO/MBI, Acquisition, Growth, Refinance or Turnaround. It achieves this through a range of flexible asset based lending funding solutions.

IGF believe lending is a tool to enable businesses to achieve their objectives and ambitions.

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