QUICK GUIDE TO INVESTMENT

www.designerfactfile.com/investment

INTRODUCTION

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"Investment is simply another resource required to grow a business"

Businesses are often wary or in awe of the idea of taking on investment. But, when starting a business, money is just one of many resources you will need. Every business should have a business plan, outlining their USP, how and where they will sell their product, costs of production, the profit margin on each product, the cost of their overheads now and a projection of the cost of their overheads in three to five years' time.

STARTING YOUR BUSINESS

Many new businesses will fund their first collections through a loan from Friends and Family. This is essentially easy money. However, it is often worth talking to Angel Investors first, because if you can secure start-up money through this route, you can save the Friends and Family option as a 'get out of jail free card' if things do not go quite as planned (they rarely do). A good Angel Investor will provide essential start-up cash/seed capital, but bringing their experience of running a business is just as important, so that they can also act as a mentor, help you structure your business, navigate challenges and drive forward growth. Angel Investors will look for a financial return, but will often take a long-term view and will have other motives for supporting new businesses, eg: they may have an interest in the sector, they may have been helped themselves in the past and this is their way to 'Pay Forward' or repay the favour by helping someone else.

"It has been shown that businesses backed by Angel Investors with business experience are twice as likely to be successful"

A good Angel will be your mirror and motivation. They are there to say 'well done' and question failures to ensure that you learn from your mistakes.

Investors

There are several ways to find Angel Investors, below are some recommendations:

Aspire Fund

capitalforenterprise.gov.uk/files/Aspire%20Fund.pdf

AngelcoFund

angelcofund.co.uk

UK Business Angels Association

ukbusinessangelsassociation.org.uk

Angel Investment Network

angelinvestmentnetwork.co.uk

Angel List

angel.co

In addition to Angel Investors, there are 'Vanity' investors. These should be approached with caution as motivation for investment might not be altruistic and can often become complicated. These investments can work if there is a clear and agreed framework for engagement, decision making and involvement in the business that works for both parties.

You may find individuals who offer to invest in your business through 'in-kind' services, eg: they will work for you for free. These are usually to be avoided. Focus on raising cash and then employ the best person for that role, which may/may not be the person that offered to do it for 'free'.

In the fashion sector there are great competitions, such as NEWGEN, that can provide essential mentoring and financial support at the very early stages of a business.

britishfashioncouncil.co.uk/newgen

britishfashioncouncil.co.uk/designerfashionfund

Crowdfunding is another potential route for generating money. Crowdfunding sites will enable you to pitch your concept to their database to secure small investments from a large number of people. All have different rules and audiences, so make sure you do your research. This has been popular in the Tech arena but is also gaining traction in fashion.

Good examples of crowdfunding sites are:

- **crowdcube.com**
- **seedrs.com**
- **kickstarter.com**
- **fundingcircle.com** (peer to peer)
- **syndicateroom.com**
- **investingzone.com**
- **moolahoop.com** (for women only)

Whatever route of funding you choose, it is essential you start a dialogue with your bank manager, share your business plan and keep him/her updated through good times and bad. **Traditional banking** offers several finance options which are explored later in this section.

EARLY-STAGE CHECK-LIST:

Has the investor done it before?

What experience do they bring?

Do they understand what they are investing in?

Unlike other sectors, fashion businesses tend to have an 8 to 10 year return.

Check references

A good gauge is whether their previous investments have had difficulties.

Do you think you can work with them?

A good Angel Investor will become your business mentor, so can you see yourself seeking their advice, listening to their advice and working with them in the long-term?

Is your business plan robust?

Money is just one of the resources you need, it will not solve all your business challenges.

FURTHER INVESTMENT

After you have been in business for a few years, you will probably look for **Early Venture/Late Seed** investment to fund growth. You will typically be looking for in the region of £1m. This level of investment is the hardest to find as it is too much for an Angel Investor and too little for Venture Funds.

This is also one of the hardest stages in your business growth. Your business will feel the most precarious and those that do close down, often do so at this stage. Funds are usually required to support factories, stores, on-line, and production of collections to help you get to the next stage. Growth in wholesale doors and funds for production of collections can be sourced through more **Traditional Finance** routes such as **Trade Finance, Loans and Factoring.**

Finding this level of investor can be done through recommendations and networks.

Later Venture/Growth Capital/Series A Investors (don't worry about the jargon) comes a few years later. These groups will be interested in businesses that can grow from £10m to £100m+. At this stage the business will usually have high margins or the potential to reach high margins.

These investors tend to invest in five businesses with the idea that four out of the five will usually fail, meaning that if you are the success they will look to spread the risk and get a high return.

Typically these investors will look for a single product that drives sales. The recent investment in the Cambridge Satchel Company is a good example of this kind of growth investment.

Why will people invest in you?

You will have a good product, a good business plan and more often than not, will be compelling and likeable. Remember that this is your business, you believe in it and that there is a partner out there somewhere for you. Have confidence, it goes a long way.

Tips for approaching investors for venture financing and growth capital:

DOS

Do try to wait until you have significant traction

Do attempt to raise funding after first reaching a significant milestone

Do get to know potential investors (strategic or financial) in advance of the fundraising process

Do be direct and have a plan (how much and uses of proceeds)

Do network extensively

Do contact the right person at the firms you approach

Do have multiple term sheets – can help to get multiple offers

DON'TS

Don't take the funding process lightly

Don't try to raise between significant milestones

Don't pick your investor solely on brand / name

Don't pitch the most ideal investors first, practice first

Don't confuse a pitch with a conversation

Don't travel too far – being close to your investor matters

DOING THE DEAL

Valuing your business:

There are no hard and fast rules for valuing your business and there are a couple of commonly used methods.

In order to give finance, investors look at either:

Multiples:

- A multiple of profit (for example: 'six times earnings before tax plus interest' = 6 x EBIT).
- A multiple of revenues.
- To calculate these multiples, you can look at the historical performance of your business or future projections. If a business is making a loss, then use a revenue multiple for your calculations..
- The smaller the business, the lower the multiple will be, as the investor believes there is more risk.

Or

Comparables:

- By comparing your business to similar businesses that are already public and whose sales, profits and share price are well known. For example: 'public companies trade at ABC multiple so we'll value yours the same way (less a 30% discount because your shares cannot easily be sold)'.
- By comparing your business to similar private 'deals' which either the industry knows or are publicly known. For example: 'Company A sold 20% to XYZ Publications for £Y million and because we are half the size, we should be valued at half their value'.

Remember that as an entrepreneur, you are not only giving up a share of your business, but you are probably excluding yourself from working in certain sectors for a while and so some value needs to be given to your 'tying yourself in'.

How much investment?

How much investment you need depends on the business and how much money is needed to achieve the aims set out in your business plan. Generally speaking, the minimum amount of money you need is your Working Capital and Growth Capital added together.

Working capital is the amount of money that you need to run and finance the business, to purchase stock and pay deposits while waiting for clients to pay.

Growth capital can include capital expenditure such as machinery, and includes all the money you spend until your business breaks even. Typically, this means accrued losses for the first few years, including rent, staff, samples, brand work, launch marketing, legal fees, etc. But it might also include fixed assets such as shop fixtures and fittings, computers and so on.

The best way is to consider your business life cycle will probably have three stages of investment, in which you may give away a third of your business each time **(a third is what investors will try for, and you should try for a fifth each time or 20%)**. Of course the amount you are raising will depend on how much you are giving away, however, if the business plan is solid and you are looking to finance growth, then whatever the amount you are asking for up to a third should be the norm.

The key thing is to raise more cash than you think you need as things never go exactly to plan. When talking about the terms of the deal, negotiate hard, almost to the point the investor says no. Both parties need to be happy with the deal as your investors will be a key partner going forward. If it feels wrong, then don't get the investment.

Always get your own dedicated independent legal adviser to draw up the terms of the agreement or at least negotiate on your 'side'. The investor will have their own.

TIPS FROM INVESTORS

- Be clear that you can deliver on your business plan and what you are going to use the money for.
- Be sure this is a clear business opportunity.
- Always ask for more cash than you think you need.
- Don't give away large amounts of your business in return for skills.
- It is better to sell a stake for cash and employ someone fantastic with the expertise.
- In all negotiations, keep your name. By all means licence your name but do not give it away.
- Always take legal advice.
- Make sure you are happy with the deal. Once you have signed it will be too late to look back.
- Speak to other designers that have taken investment. What do they wish they knew then that they know now?
- If you are finding it hard to choose which Angel, ask one to be a stand-by who can provide money or step in if things go wrong.
- Keep you bank manager informed of your plans, they are a good source of advice and may have clients within the bank's network for you to speak to.

TIPS FROM LAWYERS

Advice from Taylor Wessing

- **Get your house in order.**
  Investors will want to see a paper trail of your business such as signed agreements with suppliers, employment contracts for your staff etc.
- **Be prepared to relinquish some control.**
  Investors are not after creative control of your business but will expect some rights in return for their investment
- **Protect your brand.**
  This is essential for any consumer-facing business but especially so when seeking outside investment, as that is fundamental to value creation. It is never too early to put trade mark protection in place so consider this at the outset.
- **Focus on your business plan.**
  It will be crucial to the long term strength of your partnership with any investor as it shows your vision for growth. It should include a plan for the next 5 years.
- **Engage the right management team.**
  Investors place huge emphasis on backing a solid management team (which they will seek to incentivise accordingly) so consider carefully whether your senior managers have the right skill set to take the business where you, and your investors, want it to go.

CASH FLOW FINANCING / NON-EQUITY FINANCING

Traditional Finance routes such as Trade Finance, Loans and Factoring are also available.

What Is Factoring?

Simply put, it is a flexible form of financing for growing companies. But how does it work?

By Christina Malleos, Director, Hilldun Corporation, New York www.hilldun.com

For a small business in fashion, receiving orders from their most coveted retailers can be both thrilling and overwhelming. The excitement for designers of getting customers to believe in your brand is soon followed by the reality of how to finance the orders. Fashion financing – more commonly referred to as factoring – offers a company a flexible form of a loan without having to give up equity prematurely.

Is It Right For You?

Whether you are a start-up or an established business, factoring may be right for several reasons. If you have confirmed purchase orders and need help with financing them or simply need an advance on your shipped goods, factoring is the solution to your financing needs.

Information on Hilldun Corporation .

Hilldun Corporation, a privately owned factoring company with offices in NYC and Los Angeles, will make advances to its clients against purchase orders and invoices that are generated to customers (typically stores) globally. Although Hilldun is active in all areas of the market, Hilldun typically works with high-end designers. As a result, we work with many designers who are selling to the same store base. Having the top designers who are sought after by these stores is important to us (and our clients) because this gives us enormous strength in collecting from these stores globally. A store can live without any one designer. But in Hilldun's case, representing 60-70 per cent of the supply of the store means that these stores must pay Hilldun. They cannot afford to jeopardise their source of product and must pay Hilldun on time or else they risk losing their supply from all Hilldun clients. In a world of limited resources, Hilldun will always get paid first. For companies that are shipping to customers on credit terms, who want to limit their credit exposure and outsource their collections, Hilldun is a great alternative.

Furthermore, putting a financing agreement in place with a privately owned company like Hilldun can be done far more quickly than most other forms of finance. The arrangement is as follows:

(i) An approval (and guarantee) will be issued of the credit of the designer's customer (typically a store).

(ii) An advance against future orders will be made by the factor (when appropriate).

(iii) An advance will be made by the factor against the future payment of the invoice by the store (typically 70-85 per cent of the assigned invoices).

(iv) The factor will collect the invoices when they become due and pay the balance back to the client.

Factoring is so common in the apparel industry because of the flexibility it offers companies. Unlike traditional bank overdrafts or lines of credits, a company's availability will grow as their business grows. In many cases, at the start of a new factoring arrangement, Hilldun will take on existing customers, which can involve a very substantial advance being made to a company right at the start. A notification letter signed by Hilldun and the company will be sent to all of the company's customers notifying them of the new arrangement. The charges are relatively small in comparison with what the company is able to do without giving up any equity of their business.

For more information please contact Christina via email christina@hilldun.com