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Ruffena Venture Finance

A GUIDE

What is Venture Debt?

Venture Debt is an injection of capital that provides resources to help your business grow but requires only minimal dilution of equity ownership. It is only suitable for businesses that are growing rapidly and have predictable revenue streams. It can be used to accelerate growth ahead of a key value generating event such as a future equity round, an IPO, or a trade sale.

What is the difference between Venture Debt and Venture Capital?

Venture Debt provides financial resource with minimal dilution of the shareholder equity, whereas Venture Capital typically requires substantial dilution to make its return.

Venture Debt providers do not require a seat on the board. Venture Capital providers typically do.

Venture Debt providers charge interest and require the loan to be repaid according to an agreed schedule. Venture Capital providers require their funds to be repaid on exit or refinancing.

Venture Debt can be quicker to arrange, perhaps within 2 months of initial contact, whereas Venture Capital typically takes between 3 to 6 months or more to arrange.

Advantages of Venture Debt.

Nominal dilution: Typically, we require only 15% of the total arranged debt in the form of warrants (options) to buy equity in your business in the future. As our loan will typically be for a sum much less that the value of your business, and our warrants are 15% of that, the proportion of equity we have the right to buy is small.

Quicker approval process: We aim to approve loans within 2 months of initial contact, but as importantly, we reach a decision to proceed more quickly.

Interest costs and arrangement fees are tax deductible. We have no role in running your company, unlike most forms of external equity.

Disadvantages of Venture Debt.

Interest must be paid on the agreed basis.

The loan must be repaid although this can be structured to meet your growth profile.

Your business must be able to support the interest payments and capital repayment of the entire loan sum in an agreed timeframe.

When is Venture Debt suitable?

Venture Debt is suitable for companies who have:

- A robust business model;
- achieved a solid base of revenue and a strong pipeline of sales showing growth of 20% per annum plus;
- a base revenue of at least £2m;
- a well researched business plan;
- systems for providing monthly business management information;
- a clear strategy for an equity raise or an exit or some other means of loan repayment;
- strong corporate governance including an active Chairman and a balanced board;
- A full or part time finance director.

The Relationship between Venture Debt and Other Debt.

Venture debt can be used in conjunction with other forms of debt although we will wish to satisfy ourselves that the overall debt burden can be serviced. In some cases, it might make more sense to use venture debt to repay existing lending you may have.

Our Typical Terms and Conditions.

- Ruffena Venture Finance provides loans between £500,000 and £2 million.
- Arrangement fees are between 2% and 5% of the total amount loaned.
- Typical interest rates are 10% per annum which is payable monthly, with either the original loan amount being repaid at the end of the loan term, or in stages during it.
- Warrants (options) to purchase equity of up to 15% of the loan size are priced at the last equity price or an agreed value.
- Our loan terms are typically 18 months to 3 years.
- We charge a monitoring fee of during the life of the loan of £1000 per month

- Loan repayments are scheduled in agreement with company.
- Draw down can be phased to meet company cash flow needs.

Our Process.

We have a very simple process that has five stages:

Stage 1: Submission of business plan and key financial forecasts. Initial due diligence.

Stage 2: On site meeting with management team and other principal investors. Detailed discussions with the Financial Director.

Stage 3. Formal offer and term negotiations.

Stage 4. Financial and operational due diligence, including client verification.

Stage 5. Funding approved and funds transferred.

What information should you prepare.

We require the following information prior to meeting:

1. A presentation of the business plan including revenue breakdown by client.
2. Last three years accounts
3. The most recent management accounts
4. Monthly financial forecasts for next three years including profit and loss, cash flow, balance sheets.
5. A capitalisation table showing equity ownership.

Post Funding Monitoring and Reporting.

You will be required to report monthly over the life of the loan. Whilst we will not be as hands-on as some equity shareholders, we will monitor your business against agreed KPIs. Typically, this involves the following:

1. Management accounts signed off by the Finance Director and Chief Executive Officer
2. A formal statement that the business is implementing the business plan as agreed or where there is divergence that it is explained, and measures are put in place to put the business back on track.
3. A face-to-face meeting or conference call to discuss any issues arising.

For Further information contact:

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