

# BEER & PARTNERS



funding for growth

>> How We Work For Investors

Authorised and Regulated by the Financial Services Authority

## Introduction

This booklet is aimed at both first-time investors in unquoted companies and those who have invested before. For the former we hope that this gives some tips on avoiding the more expensive mistakes. For the latter this is a gentle reminder of our process and how to gain the most from our relationship with you. However experienced you are though, it is important that our investor contacts know what Beer & Partners will promise, what it will not promise, how we work and how we are paid.

Unlisted investment is not entirely without its perils, and those who have never lost money - or at least sleep! - have probably not made many investments before. Conversely there are tremendous opportunities to get in at the early stage of some really high growth companies and to exit with a substantial gain under your belt; indeed if we do not see significant growth potential, we will not accept companies as clients.

There are those who are, quite rightly, forever warning of the risks; let us please not forget about the potential rewards. If this booklet helps to put the risks and rewards into perspective, it will have done its job.

Whilst we do not have a client relationship with you, the more each of us understands what the other wants, the better.

## The Golden Rules

### 1. DO NOT RISK MORE THAN YOU CAN AFFORD TO LOSE

This means that you should not re-mortgage your home or jeopardise your retirement income in order to scrape the money together. Do your sums, with the help of your accountant or financial advisor if needed, to make sure that you will still be solvent if the amount you have set aside is lost completely.

### 2. IT IS NOT A LIQUID MARKET

There is no real stock exchange for unlisted companies and you are likely only to be able to sell your shares, alongside the other shareholders, when the business is sold or, perhaps rarely, floated. However, exits can sometimes be structured through the management buying back at an agreed price.

### 3. LOOK BEFORE YOU LEAP

Do not invest without at least checking out the management team and reading the business plan first. There are other things that you should ideally do in advance, but you have to feel comfortable with both the team and the plan. It is particularly important that you get on well personally with the management team; chemistry is all-important in our market.

## 4. USE YOUR INSTINCTS

The best advice to take is from yourself, with due respect to the professionals. You have money to invest because you have been acute enough to have made it in the first place. So have the confidence to back your own judgement - you will be right more often than wrong.

## 5. DO NOT BE TOO PASSIVE

The greater the interest you take in your investment, the more likely it is to be successful for you. If you are not going on the Board, make sure there is someone on it who will keep an eye out for your best interests. It can be hard work, but it is worth it in the long run.

## 6. DO NOT LET THE TAX BREAKS INFLUENCE YOU

There are generous reliefs available, such as EIS and CGT Reinvestment Relief. Decide whether or not to invest before positioning your investment in the most tax efficient way. Indeed the potential loss of EIS relief can be a hindrance to later funding rounds. We do have tax experts in the firm, and if you would like specific advice, please contact Dorking office and we will put you in touch.

## 7. KNOW WHAT YOU WANT TO DO FIRST

It is usually best to have an idea of the sectors that you want to invest in first. This is easier said than done, but if you know about a particular sector, picking the right investment will be easier.

## Our Relationship With You

Here are a few key things you need to know at the outset so we can each get the most out of our dealings together.

- *You are not our client; our client is the company seeking funding. Our job is to filter out the thousands of approaches that we receive each year to those that we think will succeed.*
- *We do not give investment advice, to you or to anyone else. We can of course give you general guidance since we are very familiar with our markets, but there would be a conflict of interest if we acted for you. So do not ask us whether we think you should invest in a particular company.*
- *The more we know about you, the easier it is for us to find the right business for you. So let us have your CV, meet as many of us as you can, particularly your regional Beer & Partners team, to get familiar with our methods. We will do our best to understand the sort of businesses or management teams you are looking for. That way you will see the best deals first.*
- *Keep us in touch with your circumstances as they change. If your investment criteria alter, tell us so we do not pester you with something that is unsuitable. Please also let us know when your contact details (particularly your e-mail address - everyone forgets that one) change.*
- *If you know anyone who is interested in investing in our markets, or indeed who is looking for funding, contact us. Our investors recommend many of our better proposals, and that is valuable to us all.*
- *We owe you a duty of care. This means we will not pass on information we believe to be wrong. Business summaries, indeed any investment communication, prepared by us must comply with FSA's Conduct of Business Rules.*

## Our Relationship With You continued

*They will be "clear, fair, not misleading and verifiable" and any material statements of fact will be capable of being substantiated. We do take great care to make sure that we give as balanced a picture of our client as we can. Our reputation with our investors, without whom we have no business, is of paramount importance.*

- *You have a general duty of confidentiality concerning our processes as well as your fellow investors and our clients. This means that you must not use any information that you are given except for the purpose of deciding whether or not to invest. This duty has no time limit. We recognise that investors may have a wide range of interests, some of which may conflict with our client's; we expect these to be declared at the outset. If we or our client ask you to return papers, you should do so immediately and without keeping a copy 'just in case'.*
- *We will take great care with the information we have about you. However we may, unless you ask us not to, pass your CV to clients before a meeting with them.*

## Fees

Our client company pays our fees - our services to you are free. Nevertheless you do need to be fully aware of our fee structure. Our fees will comprise a small retainer fee at the outset, to ensure our client's commitment to us and to contribute to our initial costs. Sometimes this is paid on a monthly basis.

This is followed by success fees, calculated upon the value of the investment, in cash or in kind.

This is typically 5% in cash, payable immediately on completion and subject to a minimum of £5,000. We also take, as part of our fee, share options of 5%.

Fee and option terms may sometimes vary and a copy of our engagement letter will be made available at the due diligence stage with the permission of our client. We do not "do deals" with investors on our success fees – these are our livelihood! We suggest that, before you invest, you take a look at the engagement letter we have agreed with the company, so that you know what our client has to pay to us on completion.

## What We Give You

There are a number of things we do to bring suitable clients in front of you. In essence we are your expert window to the unquoted investment market:

- *We want to help our clients as efficiently as possible, and this inevitably means helping you find deals as quickly as possible. You can if you want have one main individual point of contact within Beer & Partners, and his role is to know you as thoroughly as possible and bring to your attention anything and everything that looks 'up your street'.*
- *When we see something that we think will particularly interest you, we will contact you unless you tell us that you do not want us to do this.*
- *Every few weeks you will receive our Stop Press by e-mail. This is a brief summary of each of the more interesting businesses that we have seen; companies normally appear only once in the Stop Press. Contact the named Beer & Partners Associate directly to find out more.*

There is also our Private List, showing all current clients, sorted in sector or by area; this is available on our website but can be sent to you at any time on request.

- We will almost invariably prepare a 2 to 3 page synopsis of suitable businesses, carrying much more detail. We ask all investors to respond to this - it is an important part of the dialogue between us.
- We also hold Investment Fairs in London from time to time. This gives you an opportunity to meet 20 to 30 management teams in an informal atmosphere, and is very popular with investors.
- Some of our regional offices hold Investment Forums, usually jointly with local accountants, lawyers and banks. There, a few of our local clients will present their investment case to investors.
- If you are interested in forming syndicates, or are already in one but are worried about the complex regulations, we can help by arranging regular meetings with other investors.
- Some of our investors are particularly interested in recovery situations. These have to go through a rather different process and are dealt with initially by Beer & Young Ltd, in which the firm has a shareholding. For more information please contact them.
- If you are looking to invest 'sweat equity' with smaller amounts of cash, then please contact [IDSquared direct](#).

## The Search

You probably should not put money into the first proposal that comes along, and first time investors do need to spend a bit of time getting a feel for the market. It is however important not to waste too much time on an unfocussed, scatter-gun,

meander around every crackpot idea that is put in front of you. That is the great advantage of being one of our investors; we take away that chore by pre-filtering. Any active investor will tell you how time consuming this sifting process can be.

We see several thousand proposals each year. We have regional teams around the country, all with unlisted company funding experience. We are doing our very best to source and to present to our investors the most promising investment opportunities. Our regional teams network with the local accountants, bankers etc so that the best deals come to us. We will accept only what we feel are the better proposals as clients.

So make the most of that expertise. Get to know your local Beer & Partners contact. Whilst we will have your CV, the more we know about you and what you want, the more we are able to keep a look out for particularly interesting opportunities for you. If you establish sufficient rapport, you may even see deals before they are marketed; we have no problem with this, provided we are acting in the best interests of our client company.

In any event, we strongly advise investors to meet as many of our clients as they can. Whatever a business plan may say, there is no substitute for looking into the eyes. What may have seemed a promising opportunity often turns sour simply because the chemistry just is not there. Fortunately for everyone the converse is true just as often. One thing is certain - if you do not meet our client you will never know whether that investment would have been the one to make your next fortune.

## The Filter Process

Every company is different and every investor has a different idea of what is important; nevertheless there are a few basic things that you should check.

- *Can the management team demonstrate that it has the ability to turn your money into profit? Is there anything in their track record that supports this? Do a Companies House search - it can tell you a lot.*
- *Can you trust them, and do they have the drive and desire to make the plan work?*
- *How much thought has gone into the business plan and can they justify, credibly, any assertions they make in it?*
- *What makes their company different from its competitors and therefore more likely to succeed? Perhaps there are patent protections, proprietary information or other factors that will give comfort to you that it is 'special'.*
- *What is the potential exit route, when and where is it? Does this suit you? Can you help to effect it?*
- *How much is really needed, when and why? Can funding be phased? What is the new money to be spent on - you may not want to put money into a company merely to repay shareholder/bank debt, or to fund a lifestyle. Remember we can help with introductions to a wide range of secured lenders.*
- *What is the deal? How much equity are the present owners prepared to surrender? How did they arrive at the figure? Is the valuation reasonable? Is there a skills gap in the team that you can help fill? There should however, always be room for negotiation by both sides - if the chemistry is right, the rest tends to fall into place.*
- *Are there any time constraints or other factors that you need to be aware of?*

You should aim to cover this at the first meeting. If we have done our job properly, our client should be able to answer all of the "standard" questions above.

## Doing The Deal

Every deal is different, but here are a few general pointers. Remember we will be on the other side of the negotiating table from you, so we don't want to give too much away!

- *Be flexible - in the unlisted markets, preconceptions are dangerous; every business presents a different opportunity and a different challenge. Don't just think of equity, maybe it is better for you to lend or use mezzanine finance mechanisms.*
- *Work quickly - the better deals are snapped up, but do not be pressurised either.*
- *Make sure that the management team answer the questions you ask and provide the information you need. If they do not, then take care.*
- *If you can get security, however apparently poor, take it. You never know when things can go wrong.*
- *EIS relief is fine, but think very, very carefully before making it a condition of investment.*
- *Make sure that the management team is sufficiently incentivised to make the business work, so do not take too much of their business. Do not meddle (one man's help is another man's interference). Above all, do not ask for personal guarantees - you want the team to take decisions for the good of the company, not solely to preserve their home.*
- *Make sure that you or your syndicate have powers, either through the shareholders' agreement or share options, to take sufficient control if things go wrong. If this does happen - and it is rare - talk to us since we have specialists in recovery situations.*

## The Legals

Make sure that your lawyer has practical experience in the needs of private investors in unquoted companies.

There are many excellent firms who are used to acting for institutional investors, but make sure that they do take the right balance between informality and protection. If you do not know any suitably experienced solicitors, we can signpost.

One of our website links gives very comprehensive templates for a wide range of documents that you may need.

## Investment Regulations

These can be a real headache for companies and their advisors, and should not really be the investors' problem, but..

You should be very careful about receiving promotional material from anyone - a company or its advisors - who is not authorised by the FSA. You are not breaking the law, but they may be and they certainly will not be subjected to the same rigorous compliance routines as ourselves. There may well be quality issues too. You should only have received such information if you have already given the sender a certificate that you are either a "sophisticated" or a "high net worth" investor. There is a wide range of possible exemptions and, if in doubt, talk to a specialist solicitor.

If you do get unsolicited investment proposals or business plans from someone who is not authorised, please tell Beer & Partners' head office immediately. We may need to tell the FSA if the sender is not exempt from authorisation.

## And Finally...

Sometimes things do not go according to plan, and there is a problem - we are after all dealing with people, some of whom (you, dear reader, apart!) are idiosyncratic in the extreme. So if something does go wrong, or we can improve the way we work in any way, please call one of our Regional Directors, or our Head Office in London.

We have built the firm upon the needs of investors, and this will continue.

### DISCLAIMER

This booklet is based on information currently available, and is intended only as a general guide. Our approach to each investment proposal or client will in practice vary in accordance with the particular circumstances. No liability can be accepted by Beer & Partners Limited for any action taken or not taken as a result of the information contained herein. Any statements or views are the firm's personal views and no reliance should be placed on any such statements or views.

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