

# BEER & PARTNERS



funding for growth

>> How We Work

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# Introduction

We have written this introductory booklet to help our clients, potential clients and indeed their advisors to understand how we work. We want to dispel some of the myths surrounding our "Business Angel" market and ensure that everyone knows what we can, and perhaps more importantly cannot do. This booklet will have succeeded if we all have a better understanding of what to expect from each other. It is free to anyone who wants a copy.

Our core business is to help companies secure the funding they need to achieve their growth objectives. While this often takes the form of equity investments by Business Angels or conventional venture capital funds, we can also help when a business requires rebanking advice or secured borrowing. We are experienced in looking at alternative corporate and funding structures and assisting companies in handling the whole funding process to Heads of Agreement stage, prior to the involvement of specialist lawyers whose role is to express an agreed deal in appropriate documentation to satisfy the requirements of our client and the finance providers concerned. We offer a comprehensive range of services and advice to unquoted companies, delivered by experienced and qualified professional staff working to high standards of ethics and integrity. While much of our business involves dealing with equity investments in the £100,000 to £2 million range, we can sometimes offer to help companies requiring as little as £25,000 and as much as £10 million.

Our investor is not our client, we only act for investee companies - the companies and entrepreneurs looking for capital. We do, however, know a number of our investors extremely well - what they like, what they don't like, how they prefer to work etc - and this can be most useful for our clients in helping to "oil the wheels". At no time though, can we make any guarantees that we will be successful - it is not our money and we do not have the power of chequebook. For very early stage businesses we have the Beer incubation programme which offers a different but equally cost effective process.

## The First Steps

We would like to see a business plan. We are not looking for a work of art, but enough information to give us a preliminary feel for the type of business, whether it is likely to be suitable for investors, and the background of the people involved. If you have not written a plan before, we have also published a "Guide to Business Plans for Business Angels", and anyone in the firm will be happy to give you a copy. Remember that the fund-raising exercise should be carefully planned (unless you need emergency finance) and the fact that some thought has gone into a plan does give us comfort that our prospective clients are approaching the task in the right way. You can send the plan, or a summary, to any of us in the firm, or to our office in London (see our website and brochure for contact details). From there we will forward it to the nearest Regional Office to you. It can be e-mailed if it is fairly short. We are happy to sign a reasonable non-disclosure agreement ("NDA") first.

## The First Meeting

If, on reading the plan, we do not think we can help, we will tell you right away; we will also try to explain why. This might be because we do not have enough investors keen on the sector, or in your area (we do not deal with overseas businesses for example), or we think that you are being unrealistic in your valuation of your business. In this case we will either return the plan to you at your request, or securely destroy it.

If we think we might be able to help, the firm will then select whichever of our colleagues is best placed to meet you. This first meeting is an important one for us both, since from this we will decide what to do next.

Potential clients of the firm need therefore to prepare for this meeting, held at a mutually acceptable venue. We will quiz potential clients on the investment proposal and will seek answers to the key aspects of the proposal that our investors are looking for, i.e.

- *Can the management team demonstrate that it has the ability to turn investment into profit? Is there anything in their track record that supports this?*
- *What is the "discriminator" in your business? What makes your company different from its competitors and therefore more likely to succeed? Perhaps patent protections, proprietary information or other factors that will give comfort to investors that you are "special".*
- *What is the potential exit route, when and where is it? Remember investors are not looking for lifestyle businesses, they want to see growth, perhaps followed by a trade sale, float, sale back to the management, or whatever.*
- *How much is really needed, when and why? Can funding be phased? What is the new money to be spent on? Investors will not put money into a company merely to repay shareholder/bank debt, or to fund a lifestyle.*
- *What is the deal? How much equity are you prepared to sell? How did you arrive at the figure? Is there a skills gap in the team that a suitable investor can help fill?*
- *Are there any time or other constraints (apart from "as soon as possible" - everyone seems to come to us too late!) or other factors that we need to be aware of?*

We will also want to look at other funding avenues. About a third of us in the firm are bankers, and if we can find a way of raising the finance needed without diluting the equity, we will recommend that you do so.

## The First Meeting continued

It may be that the business plan, however carefully prepared, does not bring out the issues that a potential equity investor will want to see – e.g. what is the deal for them. The review, and where necessary, guidance on the structure of your plan is part of our service to you.

Sometimes, particularly where the investment proposal is in a specialist or highly technical area, we might invite one of our investors with sector experience to attend the first meeting - he often knows the right questions to ask!

## Our Fee Structure

We will also want to agree our fee structure at that first meeting. On this thorny topic, we do not work for nothing, and we do charge a non-refundable retainer fee to reflect some of the preparation work that we need to do. In certain cases the retainer fee is payable on a monthly basis for the duration of the project, reflecting the fact that there is a continuing need for our ongoing involvement. The agreed part of our retainer fee must be paid before we start. This fee will also cover our out of pocket expenses incurred, for example, in marketing you and your business to our investors, travelling etc.

Most of the firm's income is of course geared towards success, for which our fees are 5% of the funds raised through our introductions. In addition, we will take an option or warrants over an amount equivalent to 5%.

Unusually for this market, we do not ask for exclusivity in the fund raising exercise. Indeed we positively encourage our clients to explore their own potential investor contacts, but ask to be kept fully informed of all discussions in this regard.

We will generally require an override of 2% on funding introduced from other sources following our engagement.

If anyone would like to see our standard Letter of Engagement at this time, they are most welcome.

## What Investors Want

In deciding whether or not we can help, our first concern is deciding if the investment proposal is likely to be attractive to investors. You might like it, we might like it, but will our investors? That is what matters. At the risk of stating the obvious, investors will want to make a profit out of their investment. This means that, at a minimum, they will want to see the value of their investment double over, say, three years.

They will want to see an exit route - no-one wants to be locked into an unquoted investment for ever, so there needs to be a clear exit strategy. This can be through a trade sale (who are the target buyers?) or a sale back to the management if cash flow permits. They will want a seat on the Board; possibly they will want to fill a part time role in the business. Indeed, they are likely to have a range of skills and contacts that will be extremely useful to our clients. Investors invest in people first, businesses second, so they need to be able to buy in to the proposal and to trust the team.

## After The Meeting

If we think we can help, we will send you a formal Letter of Engagement for you to sign and return. We can do nothing else until this has been done. With this is a pro forma invoice for our agreed retainer fee, and on payment we will send you a VAT invoice.

We then work with you to ensure that we understand your investment proposal sufficiently, and that the business plan is in a form that will be attractive to investors. The timescale for this is largely in your hands. We may also want to talk to your accountants to check whether Enterprise Investment Scheme ("EIS") relief is available, and perhaps to your lawyers if there are any legal issues such as intellectual property rights that need to be dealt with.

## Marketing The Client

Our job is to ensure that our clients' proposals are presented in the right way to as many suitable investors as possible, and we employ a variety of channels to achieve that end .

Our most effective means of bringing you in front of our investors has always been through personal contact. Our Associates know the more active investors, and deal with them on a wide variety of matters. So they will contact these investors as soon as they see a proposal that is likely to interest them. Our investors appreciate this, since they are looking for deals. It is this knowledge of our more active investors that is the real strength of the firm. Often we will also prepare a 2/3 page synopsis - approved and warranted by our client - which we circulate to targeted investors. Our Associates

have knowledge of our Investors' requirements and interests and will target the appropriate ones. This may be to 10 investors or 100, depending on the nature of the investment proposal.

Finally we will prepare a short paragraph for our regular Stop Press. This is up to 200 words, will not name our clients, but invite interested investors

to seek further information from your Beer & Partners Associate. Our client will approve the entry in advance, and will warrant information given. Circulation of the Stop Press is well over 2,000 and growing, and will include all our private investors, the VC Institutions and a large number of our other contacts, such as stockbrokers, private banks, accountants, solicitors - indeed anyone we know who has access to investors. Given the range of circulation, we cannot realistically control who will read the entry and we need to be careful not to disclose confidential or sensitive information, but provide enough to make our investors want to know more. The American phrase is the "elevator pitch".

In addition we have a brief summary of the business - the Private List - which is sent to all investors and contacts of the firm, as well as appearing on our web site; this makes sure they have not forgotten about you and is part of our "welcome pack" for new investors. We also pass brief details to one or two of the more active Business Angel networks, and to some of the web sites that are dedicated to our market.

We occasionally run Investor Fairs. In these we invite investors to meet our clients face to face. Clients are given a table and a plug point, investors receive a catalogue of clients attending the Fair and are free to talk to as many of our clients across the table as they wish, for as long as they wish. We will normally ask clients to make a contribution to the cost of running these Fairs.

## Investor Meetings

If an investor wants to meet our client, he will need the up to date business plan in advance of the meeting, and we encourage our clients to send this, so that they have the chance to establish direct contact as soon as possible. Whilst our investors may have signed a general confidentiality agreement with the firm, it is wise to reinforce this direct, particularly where there is market sensitive information in the plan. Our investors often have fingers in pies that we do not necessarily know about and we would always recommend caution in giving away too much sensitive information at too early a stage. Remember however, that at some point you will have to bare your soul. We will usually attend the first meeting with each investor, to ensure that things run as smoothly as possible.

Remember that our investors are highly experienced, are likely to fully understand your market (that is one reason why they want to invest in it in the first place), and are very careful about what they do with their money. We do not know many rich fools! We cannot emphasise too strongly the need to be open and honest with our investors, to answer all questions as fully as possible, and to respond to any requests for further information promptly. Working with investors is all about trust, and if investors have the feeling that our clients are being less than open, they will simply walk away, and quite rightly too. The investor is assessing our client and his or her ability to carry through the plan; the chemistry has to be right.

After this first stage, we find that it is usually best to let the two principals get on with it. Interference by a third party merely delays things. Since we know our clients and many of our investors, perhaps our most important role at this

stage is to be on hand for advice when needed, to try to smooth over any little difficulties that can often arise, and to make sure that everyone keeps focus.

## The Investment Process

We have a role in the due diligence stage. Although due diligence will usually be relatively informal, we do need to make sure that our clients are providing additional information promptly and accurately. We will also advise our client on any formal or informal offers that the investor might make, to ensure that all the key issues have been agreed, or at least discussed.

When the time comes to appoint solicitors, we can recommend suitable firms if our client does not have one of his own - after all the private equity markets are somewhat specialised and a solicitor with relevant experience is essential.

After this, we are on hand should problems arise - it is in our own interests after all that they do not! Whilst most of our investors are well known to us, some are not. Our clients should therefore undertake their own due diligence on investors. They are going to have to work with them, we do not. We will advise as needed.

Here are answers to some of the questions we are most often asked...

### *How long does it take?*

*This is impossible to answer. So much depends on how well our client is organised, whether the investor will need extensive due diligence, and indeed how much interest we are able to generate early on. Research by the University of Southampton suggests an average timescale of 16/17 weeks. That is an*

accurate reply to the question, but not a useful one! We have concluded restructuring finance arrangements in a week, more usually it will take many months. So we always ask that clients plan the fund-raising exercise well ahead (as any banker will tell you, if the answer has to be quick, it has to be no!). For our part we work as quickly as our clients - and the investors - allow us; that has been one of the keys to our success so far.

We will do our best to keep you up to date with progress, though bear in mind that investors are generally busy, see many proposals, get side-tracked by other things and do not like to be hassled by us or by our clients. Everyone needs to have patience when dealing in the Business Angel markets.

## *What will it cost?*

Apart from our fees, you should plan for legal costs (get an estimate once Heads of Agreement are reasonably final), and accountants' costs, perhaps for EIS clearance or personal tax advice and due diligence costs. Bear in mind that you may have to pay facility fees if there is to be bank lending involved. Some investors will want their own legal fees to be borne by our client, but we would resist that (unless of course this cost is merely added to the amount invested without changing the "deal").

## *What can we promise?*

Nothing, except that we will do everything we can to market your proposal to our investor base. Although we do not agree to help a client unless we can add value, we can never guarantee success – we do not have power of the cheque book. Ultimately the decision whether or not to invest, or to accept an investment is out of our hands. It all depends on how well you can present yourself and the investment proposal, face to face with an investor.

*Our job, in a nutshell, is to persuade as many potential investors to meet you as we can.*

## *How do I know you will be successful?*

*You don't, and nor do we! However, we are the largest and most successful Business Angel specialist in the country, indeed probably in Europe, with the widest known range of investor contacts. Details of some of our most recent successes are available from any of us.*

*If no one is interested in your proposal, this does not necessarily mean that we have not done our job, or you have not done yours, but could be seen as a valuable lesson for us both. Sometimes even we cannot persuade an investor to meet our client. In those, happily rare, cases we both need to re-examine the proposal and how it is presented to see what lessons can be learned, and perhaps change the focus of our whole approach. Nevertheless we do complete more "Business Angel" matches than anyone else in the country.*

## *And Finally...*

*If you want to know more about how we work, or to discuss any fund-raising matters, please do not hesitate to contact our Head Office, or any of our Regional Offices.*

## 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 Ltd 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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