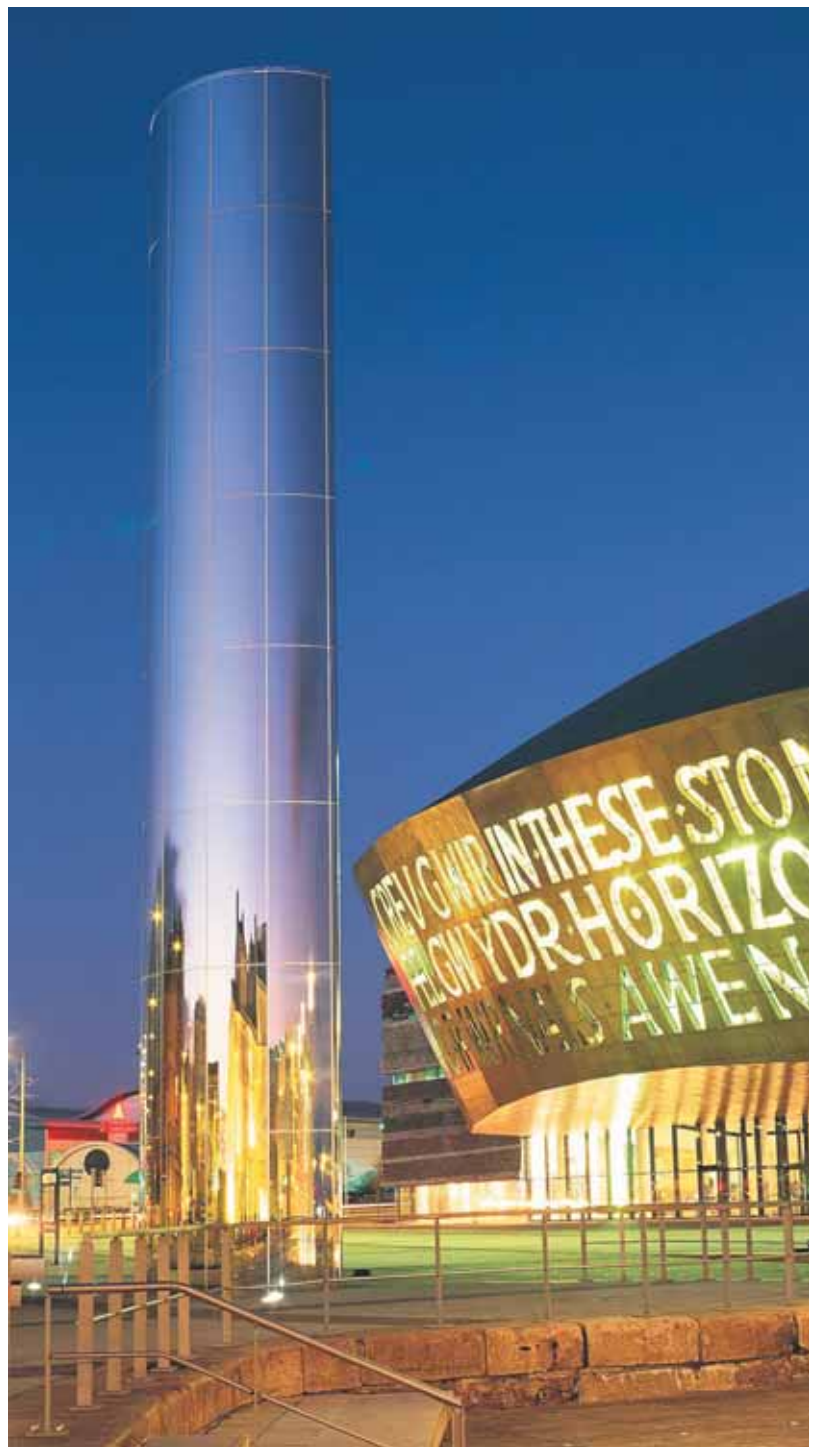


# A guide to investing in Wales

## Appendix 6 – Raising finance



# Appendix 6 – Raising finance

Wales benefits greatly from the prominence of the UK in the global economy. The UK has the best developed financial services sector in Europe, offering businesses various options for obtaining finance that range from small, specialist seed funds through to a full listing on the London Stock Exchange. The UK also has Europe's largest venture capital and private equity market and is home to the City of London, one of the world's leading international financial centres.

## Obtaining equity finance

Wales has well-established financial systems that enable businesses of all sizes to raise equity finance. Key sources of equity finance include:

### a) The London Stock Exchange

The London Stock Exchange is one of the world's premier markets for raising finance. In 2007, over 250 companies undertook Initial Public Offerings (IPOs) at the London Stock Exchange, raising over £26 billion in capital (including 86 international IPOs, the highest amount globally). The key factors for the high number of international companies choosing to list in the UK are London's liquid international trading market, the UK's high standards of regulation and corporate governance, and good access to emerging market institutional investors.

Businesses can choose from a variety of markets on which to list, depending on their requirements. The key markets at the London Stock Exchange are:

- The Main Market: Europe's most prestigious listings market for larger established companies and a proven way to raise both capital and profile. The Main Market has around 1,800 companies with a total market capitalisation of more than £3,500 billion (Source: London Stock Exchange).
- The Alternative Investment Market (AIM): a global market typically for young and growing companies. Almost 1,700 companies (including 345 companies from overseas) are quoted on AIM.
- Plus Market: a market principally for smaller companies, which is not highly regulated. Securities traded on it are unlisted and unquoted. Many companies use Plus Market prior to listing on AIM or the Main Market.

For further information on any of these markets and a detailed guide to listing on the London Stock Exchange, please see: [www.londonstockexchange.com](http://www.londonstockexchange.com)

### b) ShareMark

ShareMark is an on-line fundraising facility for small and medium-sized companies. It operates through an electronic auction market, matching buyers and sellers at a single price. Unlike other markets in the UK, the ability to deal stocks at a single price makes it an ideal trading solution for small to medium sized companies where low demand for shares creates a wide bid/offer spread. For further information, please see: [www.sharemark.co.uk](http://www.sharemark.co.uk)

### c) Venture capital

Venture capital firms typically make investments in younger businesses with high-growth potential. The UK has one of the strongest venture capital markets in Europe, with UK businesses receiving over £400 million of investment from UK venture capital investors in 2007 (Source: BVCA, 2008).

The British Venture Capital Association (BVCA) is the key organisation for the UK private equity and venture capital industry, with over 400 member firms. For further information, please see: [www.bvca.co.uk](http://www.bvca.co.uk)

In Wales, an important provider of risk capital to small and medium-sized businesses is Finance Wales plc. Finance Wales plc provides commercial funding to small and medium-sized businesses in Wales. The company, a subsidiary of the Welsh Assembly Government, provides commercial debt and equity investment of between £5,000 and £2 million to growing businesses.

Established in 2001, it currently manages more than £280 million; has invested more than £110 million through more than 2000 investments, and leveraged an additional £322 million private sector investment through co-investment and syndicated deals.

In April 2009, Finance Wales plc announced a new £150 million fund utilising £75 million from the European Investment Bank (EIB) through the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative and £60 million from the European Regional Development Fund, in addition to a further £15 million from its own resources. The new £150 million fund will enable Finance Wales plc to continue to invest in start-up/early stage, expansion and management succession.

Finance Wales plc seeks to co-invest in businesses, working closely with banks, venture capitalists, the public sector and private individuals, such as xénos business angels.

For more information about Finance Wales plc and its investment opportunities, visit [www.financewales.co.uk](http://www.financewales.co.uk).

Another indigenous venture capital provider in Wales is Wales Fund Managers which is focused on equity investments of £100,000 to £1 million in Welsh-based small and medium-sized enterprises. In addition, many other non-Welsh BVCA members are not limited from a geographical perspective and have made recent equity investments within Wales.

#### **d) Private equity**

There are a number of private equity investors with a remit to invest in the Welsh market. These differ from providers of venture capital in that they focus on larger and more mature businesses seeking to raise in excess of £2 million in order to develop their infrastructure to support further growth.

The total private equity investment made during 2007 into UK businesses by UK private equity houses totalled over £11 billion (Source: BVCA, 2008). Further information can be obtained at [www.bvca.co.uk](http://www.bvca.co.uk)

#### **e) Business Angels**

Business Angels are high net worth individuals who either operate alone (typically investing between £10,000 and £250,000 per deal) or in groups (known as “syndicates” or “networks”) where the investment size can be greater (often exceeding, £500,000). For further information, please contact the National Business Angels Network at: [www.bbaa.org.uk](http://www.bbaa.org.uk)

xénos, the Wales Business Angel Network, works closely with the business community, banks and professionals. A subsidiary company of Finance Wales, xénos is an inherent part of the financial support framework available to small and medium-sized companies in Wales. For further information, please see: [www.xenos.co.uk](http://www.xenos.co.uk)

#### **Obtaining debt finance**

Businesses in Wales have access to a wide choice of providers offering commercial loans, mortgages and credit facilities. The UK banking industry is globally recognised as being internationally competitive and includes major banks such as HSBC, Lloyds TSB, Royal Bank of Scotland, Barclays, and Standard Chartered. For further information about providers of debt finance, please see the British Bankers’ Association website at: [www.bba.org.uk](http://www.bba.org.uk)

Where the directors or shareholders of a company are unable to provide the necessary guarantees for commercial debt finance, an alternative option is the Enterprise Finance Guarantee (EFG). Through the EFG, the Government can provide guarantees for loans between £1,000 and £1,000,000. To qualify for the EFG, businesses must have a turnover not exceeding £25 million. For further information, please see: [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

#### **Other sources of finance**

In addition to obtaining finance through traditional equity or debt options, there are also other sources of ongoing funding available in the UK, typically provided by the public sector. These include:

##### **a) Seed funds**

Seed funds in the UK are usually operated by technology transfer organisations within universities, and have a strong focus on supporting innovative technology projects. A leading example of a UK seed fund is the National Endowment for Science, Technology and the Arts, which can invest up to £250,000 in innovative start-up companies. For further information, please see: [www.nesta.org.uk](http://www.nesta.org.uk)

#### **b) Community Development Venture Funds (CDVFs)**

CDVFs typically offer equity of between £100,000 and £2 million to businesses located in deprived areas across the UK. For further information, please see: [www.cdfa.org.uk](http://www.cdfa.org.uk) or [www.bridgesventures.com](http://www.bridgesventures.com)

#### **Regulation – the Financial Services Authority**

The Financial Services Authority (FSA) is the organisation that regulates all providers of financial services in the UK. The FSA is an independent body that has a wide range of rule-making, investigatory and enforcement powers in order to promote efficient, orderly and fair financial markets. For further information, please see: [www.fsa.gov.uk](http://www.fsa.gov.uk)

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