ruffena VENTURE FINANCE

A GUIDE

What is Ruffena Venture Debt?

Ruffena Venture Debt is an injection of capital that provides resources to help your business grow. At the same time, it allows you to maintain control and ownership. Venture Debt is only suitable for businesses that are growing rapidly and have predictable revenue streams. It can be used to accelerate growth and get you in the fast lane prior to a key value generating event such as a future equity round, an IPO, or a trade sale. It can be used to part fund an acquisition, a management buyout or an IPO. Venture Debt is secured against the value of the company rather than specific assets.

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 board seat. 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 from initial contact, whereas Venture Capital typically takes between 3 to 6 months or more to arrange.

What are the advantages over Venture Capital?

Nominal dilution: typically, we require only 20% of the total arranged debt in the form of warrants (options) to buy equity in your business. As our loan will typically be for a sum much less that the value of your business, and our warrants are 20% of the loan, 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.

We have no role in running your company, unlike most forms of external equity.

Interest costs and arrangement fees are tax deductible.

What are the disadvantages of Ruffena Venture Debt?

Interest must be paid on the agreed basis.

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

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

Arrangements must be made to purchase the Warrants at the end of the loan period.

When is Ruffena 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 25% per annum plus
- a base revenue of at least £1m
- a well-researched business plan
- systems for providing monthly business management information
- a clear strategy for an equity raises 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

What is 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.

What are our Typical Terms and Conditions?

- Ruffena Venture Finance provides loans between £1m and £3m.
- Arrangement fees are between 3% and 5% of the total amount loaned.
- Typical interest rates are 10-12% 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 20% of the loan size are priced at the last equity price or an agreed value.
- Our loan terms are typically 18 months to 4 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.

How are Warrants (Options)Valued?

The warrants have a grant price (exercise price) set at either a negotiated value (such as two times revenue) or the last price equity was raised. If the valuation is based on the last price equity was raised, then this is translated into an equivalent revenue (turnover) multiple. Thus, for example:

1. Company A has a post money valuation at the last equity raise of £5m
2. Turnover of Company A over the last 12 months is equal to £1m
3. Company was therefore valued for the purposes of the Warrant grant price equivalent to five times turnover
4. The warrant share is valued at completion of the loan period at 5 times revenue of the previous 12 months less the grant price.

When do we realise the value of the Warrants (Options)?

We have two scenarios:

- We can require the company to redeem the warrants at the end of the loan period. This is a "Put" option. The redemption value is based on the same formula that determined the grant price. i.e. if the company's revenue has doubled over the period then the redemption value is equal to the grant price.

- Notification of exercising the" Put" option must be made within 3 months of the new value being fixed following the end of the loan period.

- We can retain the warrants if we believe that the company will be acquired or float at a price higher than the "put" option enterprise value. The warrants can then be redeemed when the sale/float takes place at the acquisition or IPO share value.

What is our investment 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.

What ongoing information to we require?

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 information:

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. Where there is divergence 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:

Richard J Turner

www.ruffena-venture.finance

Email: richard.turner@ruffena-venture.finance

DD: 01225 331498

Mob: 07879 423828