

Arnold February
Area Manager: Metro
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BUSINESS/PARTNERS
Investing in entrepreneurs

AGENDA



- Entrepreneurship in SA
- Who is Business Partners, our business model
- Concepts of Finance
- Various type of funding and funders
- Cash flows, projections and costing
- Valuation of your business
- Conclusion

ENTREPRENEURSHIP IN SA



- Square pegs in round holes
- Jobs, wealth, tax, economy
- High quality Innovation, change, competition
- Socio-economic solutions & Skills
- A need for more entrepreneurs, not producing enough
- We must cultivate the spirit of entrepreneurship

WHO IS BUSINESS PARTNERS



- Specialist finance company
- Provides customised finance to SME's
- Our target market are those who do not qualify from normal financial institutions

A LITTLE BIT ABOUT US



- Established in 1981
- Public unlisted company with asset base of over R3.5 billion
- Shareholders: diverse and include many listed companies with the major shareholder being Remgro
- National office network comprising 19 regional and branch offices
- Funded: use mostly own funds, limited borrowings
- Expanded into Africa (sub-Saharan Africa)
- Finance from R500 000 to R30 million

VIABILITY BASED FUNDING



Major focus is on the **VIABILITY** when considering funding

- **Business risk**
 - Business risk evaluation
 - Business nature, stage
 - Gearing of business
 - Profit potential/history
 - Growth potential
- **Entrepreneurial risk**
 - Relevant experience
 - Track record
 - Profile
 - Integrity
- **Financial risk**

WHERE WE INVEST



- Industry sectors
 - Manufacturing, retailing, green economy, services, franchises, contracts, commercial property, *not primary agriculture but secondary*
- Type of Investment
 - Take-overs, MBOs, expansion, (working capital, equipment), start-ups, property acquisition
- Investment capital of between: R500 000 and R50 million

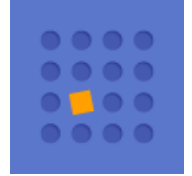
WHAT DO WE FUND?



Structured finance for:

- Working Capital
- Infra structure
- Property
- Venture finance

OUR BUSINESS MODEL



- Investment terms and return required will depend on:
 - Own contribution by entrepreneur
 - Surety of entrepreneur
 - Securities available by business and/or entrepreneur
- Returns are obtained from the following:
 - Term loan and/or shareholders loan
 - Interest rate
 - Fee
 - Shareholding: minority

CONCEPTS OF FINANCE



- (1) Cost vs Opportunity costs
- (2) Risk vs Rewards
- (3) Personal vs Business
- (4) Own funds vs Gearing
- (5) Cash flow vs Turnover/ Gross Profit/ Net Profit
- (6) Market Value vs Auction Value

VARIOUS TYPE OF FUNDING



- Overdrafts
- Revolving credit Facilities
- Medium-term loans
- Business mortgage
- Property finance
- Vehicle and asset
- Factoring/invoice advances
- Equity participation

VARIOUS FUNDERS



1. Government
2. Banks
3. Venture & Equity funders
4. Alternative funders

WHAT FUNDERS REQUIRE



- Business Plan
- Cash flow projection and assumptions
- Financial statements
- Your resumé / organogram
- Your contributions and commitments available
- Your due diligence performed

CASH FLOW MODELING: GENERAL COMMENTS



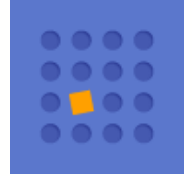
- Budget vs Actual comparisons where applicable
- Make sure to consider vat for cash flow
- Take into account the time it will take before you receive funds and working capital requirements
- Consider a low, medium and high scenario modeling
- Always apply logic and be reasonably conservative
- Show all your workings, assumptions and due diligence
- Take into account the cost of funding, debt and equity
- Take into account ALL costs, including capital expenses

CASH FLOW MODELING: GENERAL COMMENTS CONTINUED



- Consider how long it will take to commence the project
- Consider how long it will take before you receive payments from customers
- Consider legal and non financial matters that could result in costs or lost revenue

CASH FLOW MODELING: TURNOVER



- Turnover projections – logical, units sold x selling price
- Turnover projections – market analysis –marketing strategy & costs
- Turnover projections – Capacity constraints
- Turnover projections – industry norms
- Turnover projections – related expenses correlation
- Turnover projections – related stock/supplier constraints
- Turnover projections – lifespan of the product sold
- Turnover projections – previous trends achieved

CASH FLOW MODELING: EXPENSES & PROFITS/LOSSES



- Gross profit projections – Industry norm
- Gross profit projections – previous trends
- Gross profit projections – payment cycle, discounts/penalties
- Expenses – what to capitalise and what to expense
- Expenses – trend with prior years
- Start up losses
- Profits reinvested?
- Auxiliary/ unexpected costs
- Retentions and cash flow cycle

VALUATION METHODS



- **Valuation and Growth Ratios**

- Price-Earnings Ratio
- Discounted cash flows
- Industry norms in specialised sectors
 - Eg, filling stations, Insurance brokers ect
- Asset based valuations
- Turnover multiplier in certain sectors

- Willing buyer vs willing seller however, the cost of finance will affect the affordability of the transaction and therefore perceived market value.

WHAT ENTREPRENEURS MUST KNOW REGARDING FUNDING



- Your business model must be saleable and scalable. Will you invest in your business??
- Place an own contribution or own security
- Know all the role players, supporters and mentors
- Know the corporate governance requirements
- Know the funders in the market

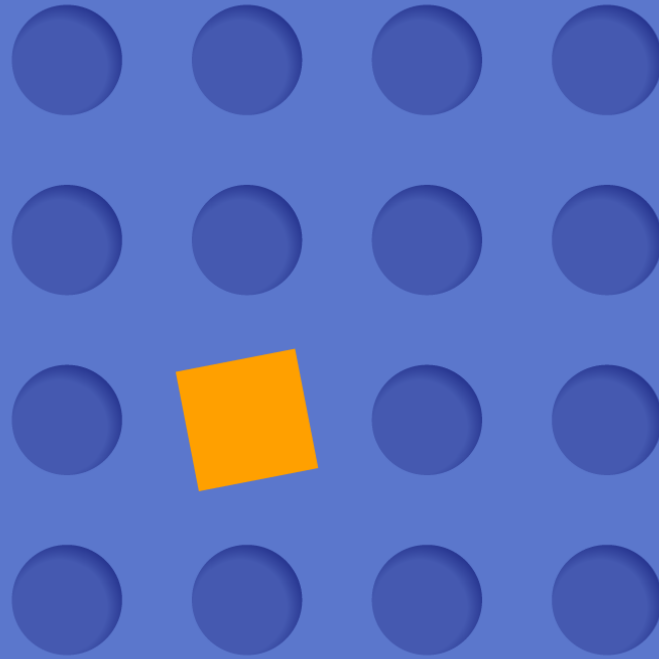


CONCLUSION

- Funding is available, but it is not always easy and quick to access
- All institutions must work together to assist entrepreneurs collectively.
- Entrepreneurs must also support one another, spirit of camaraderie
- Make use of service providers



QUESTIONS?



THANK YOU

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