

The Role of the Finance Director & Raising Business Finance

**Dick Haynes, Managing Director
Haynes Financial**

David Mellor (DWM)

Good Morning. I am here with my friend and associate Dick Haynes, and we will be talking about the dark of raising business finance.

Before we get onto this challenging topic of raising business finance, it might be helpful for anyone listening in or reading this to know a bit about the journey you have been on that has led to the current range of activities you have, which I know have a strong financial focus.

Dick Haynes (DH)

I have worked as a FD (Finance Director) for a number of years, both in finance and operations, and at board level. I have worked with a number of very capable fellow directors, and what I have tried to achieve is a commercial approach to supporting them with their particular objectives for their business. I think that is particularly important because if I know what they are trying to achieve, I can then provide the information they need. So often you talk to people about finance-related matters and the non-financial person glazes over and go into a daze. I've done it myself with other disciplines. What you have to try and do is to make the numbers talk, make the numbers tell the right story, and also help with the decisions you are going to have in the business.

What I try to do is understand the functions of my fellow directors to be able to support them in their particular way. Because I have always had this view with finance that you have two lots of customers: external and internal customers. Both are as important as each other to achieve the objectives of the business.

DWM

How does that play out in the way that you spend your time now? What is a day in the life of Dick Haynes like?

DH

What I do now is something I wish I had done many years ago. Having built the confidence and the experience I have a number of clients, and I advertise myself as a virtual FD where I will actually go into a company,

usually led financially, for a specific project. It may be looking at the way the numbers are produced; it may be the people within the department. I have actually had to replace three financial controllers recently because they were like planks of wood: adding no value to the organisation. Finance was perceived as that little dark cupboard in the corner that was in the sales prevention business. So, I have always tried to advocate that finance can be fun, but it also has to be proactive in the business. I have a number of clients now that I am actually displaying the financial numbers in a different way. I am a great believer in ratios for particular industry sectors and I try and help the other departments within the company with the financial journey. I also train non-financial people to understand the numbers, and try ultimately to improve the bottom line, which has been quite successful. This had led me into different areas; I will attempt to spot other problems within the business that enables me to bring in professionals that have the skills that I don't.

DWM

It is fascinating, and it never ceases to amaze me how many people at quite senior levels don't understand the financial drivers in their business, and don't understand the implications on shareholder value of decisions that they either chose to make or don't chose to make.

DH

I totally support that. The biggest strange thing that I have seen is salesmen who don't understand how to calculate gross margins, and they should do as I always advocate that is what they get paid on, not on revenue. So it is important they do understand. It is a problem.

DWM

In the work that I do with start-ups, particularly for people who have come out of other functions other than finance, the number of people who for the first time are coming up against what I know as "over-trading". They don't understand the timing difference between profit and cash, and that you can be profitable and illiquid at the same time.

DH

What I have noticed recently with a couple of clients who I am helping, that they have realised that when they had cash they didn't think that they had a problem. Then suddenly when they hit the wall they don't fall ten feet, they fall thirty feet and they don't understand why. It is because things have been building up over a particular period of time and they have not seen the signs. Finance is really only three numbers: you just have to get them in the right order. It's important that you do get them

in the right order, and by putting in checks and balances you can spot the problems. If you have a robust reporting pack - which doesn't have to be twenty pages, it can just be headline - you get the headlines and drop down into the detail. The dashboards now are becoming very key in terms of selling my services. Keep it simple.

DWM

Even with some big guys you can get the dashboard onto one page, and if on an exception basis there is one number on there you don't like the look of, you can then dig down into it and see why. Less is more for busy people.

DH

Yes, it's the quality of the information that counts.

DWM

Why do you enjoy doing what you do?

DH

I enjoy finance and think that it is fun. I enjoy working with people that respond, and that we together can get the solutions to particular problems with a business. I find it very satisfying that we go on a journey together, and we get a successful outcome. Sometimes it takes longer than other opportunities, but hopefully we get there in the end.

DM

Now, on to the topic of fundraising. Is it getting any easier for small- and medium-sized businesses to raise debt and equity?

DH

I have spoken to bankers and investors recently, and they say they want to invest. If the business they are looking at has the potential, they will invest. Unfortunately their investment criteria are so tight and rigid now, it is harder to raise the finance. It's not easy; you have really got to have a business that is attractive enough to take the investment.

DWM

A little piece of anecdotal evidence: I was at a networking event last week and I was talking to somebody from one of the banks, and I said to him that I had a transaction that I wanted to put his way. His first question to me was "what is the security?" He did not ask about the sector or the size of the business, or even what did they do. His first question was what was the security, and I think this shows the current mindset.

DH

I can support that. Banks are trying to renegotiate deals now that did not give them the return that they wanted, and they are trying to tear up agreements and starting again. It is becoming very difficult.

DWM

One of the things I get asked by people setting up their own business is can I recommend a good accountant, lawyer, web designer, printer, insurance broker, all the people you need. And the one question I find the hardest to answer is which bank I should go to open my account? Whether they need business finance or not, it is really hard to answer as they are all as bad as each other. There is not one that stands out, and if you do find one it's purely because of one individual – a bank manager who is commercial and wants to do business. If he is any good he is unlikely to be there very long as they will move him on to another branch. You can't really build a relationship as they don't stick around; two years is probably the average life of a relationship manager.

DH

You are right, even in the last couple of days there have been announcements of massive job losses within the banking industry. I think the normal bank person is scared and frightened for their job, and they don't want to do anything that causes a problem. All the decisions are taken from upstairs and passed down, and their reaction to the client is "please don't shoot the messenger", but unfortunately they are the front line troops, and they do have to take the response from the public.

DWM

What do you think are the major challenges for SMEs seeking to raise business finance in today's market?

DH

Putting it simply, the major challenges are:

- convincing lenders that profitable growth can be achieved from the dynamics of the numbers. And more importantly, what is the backup plan if you don't hit the numbers. Is there a contingency? Are you going to move into other markets? Are you going to close down operations? You should always have a back up plan.
- Whether the numbers stack up in terms of delivery within the proposal, and within the timescale of the proposal.

- whether the borrowings are going to adversely impact the working capital. I am a great believer in investing in businesses, but not too far ahead of revenue streams.

DWM

I know there is a key issue around the faith in the management in that when I was at Deutsche and we were doing lending and venture capital, the day we were making the decision to sign off on a proposal, 60% of the weighted decision was whether we thought the management team could actually deliver on the plan. However beautifully written the plan was. By then all the due diligence had been done, and it was a case of whether we thought this group of people could do it. It was a people issue because the numbers had been done to death by that stage.

DH

People like to buy from people, and investors always look at the management of the company. I was in this situation with quite a large investment organisation, and the guy leading the presentation on behalf of the company managed to upset the lead investor, and there was absolutely no way these two people could work together. It was the end of the conversation really. It is very important that the chemistry is right.

DWM

What do you think the view is like from the investor's perspective and from the banks' point of view?

DH

I think from the investor's perspective, they are really looking for certain security because as we all know, there are some deals that fly and others that don't. Some are prepared to take the risk but need to minimise it. They are just being very cautious, whereas during the crazy days during the dot.com boom – a period I thought would never last and it didn't – people were looking at revenue as the catalyst, not profit. It is a solid business proposition that is the key. It is also very hard to get a start-up off the ground, because you have no track record in terms of revenues and performance.

DWM

I know that banks are being very cautious. I think you said to me that investors were actually looking at loan structures rather than straight equity.

DH

I have had two or three people investing in organisations on a loan

structure basis; I have one in process at the moment. Someone is offering a loan facility at a very generous rate of interest with the option to convert in two years time. That is a great opportunity for the investor to earn income from their funds, but also to see the business and see if the story can be delivered, and I think that will become an increasingly important part of the funding arrangements.

DWM

There has been a lot of rhetoric coming out from the government about stimulating small businesses, and the big society and so on. What are your thoughts on the various government initiatives to stimulate funding?

DH

I think it is absolutely essential that the government provide these funding initiatives to get the economy moving through SMEs, because I think they are the future. Unfortunately there has been a lot of knee jerk reaction in this particular area, and I personally think that a lot of these things are poorly advertised. I also think they are too complicated to administer, and they are badly administered by incompetent people. Certain facilities where the government provided framework for the banks are just not executed. Someone needs to bang some heads together and make it work.

DWM

The other thing that I noticed was that when I was looking at the criteria for qualification for one of the schemes, and I actually tried to map it against the strongest client that I knew that had a scalable model and had already demonstrated that they had sustainable profitable growth, they would not qualify. If you looked at the criteria there was always going to be something that kicked them out. On the surface it looked fine but when you looked at the boxes you had to tick to be considered, there were very few companies in the country that would qualify. At one level the government say they are putting all this money at the disposal of businesses, but I don't think it is going to happen.

DH

Unfortunately I think there are a lot of people making these decisions who have probably never worked in a commercial environment, and it's literally come from a textbook, behind the scenes environment. It is only when you have worked in a business, and understand the framework that you operate within, that you fully understand.

DWM

I have seen some wonderful mistakes when I was fundraising. Are there any that particularly spring to mind that were on the verge of the ridiculous?

DH

There are some stories, one in particular where the numbers did not add up. They added the VAT into the turnover which is classic. 17.5% of three million pounds is quite a lot of money in terms of turnover, and it goes into the cashflow as well. The other one that comes to mind: the client was buoyant and he wanted to get more money into his business, but his sales were generated by one client who had 85% of the total volume. He was in ongoing discussions as the client wanted a price decrease, while he was looking for further funding. He didn't get it. It can sometimes be a bit frustrating to manage people's expectations.

DWM

If there is anyone out there looking to raise money, what would your top three tips be?

DH

My top three tips would be:

- Make the proposition totally and utterly crystal clear to any investors. Treat them as if they know nothing about the business. You need to capture the proposition in a heartbeat. If you can establish that up front you generate confidence with your ability in the project, and also you will give the investor a lot of confidence. Encompass exactly what you are trying to do and what the returns are, very quickly.
- Make sure your numbers and cashflow are based on solid assumptions that can be tested. This is so you can do your variance analysis, so you have a framework there and can say what happens if sales drop by 30%, or you lose your biggest customer. Make sure your assumptions are also crystal clear.
- A back up plan if you are late on delivery and ROI. Is it going to throw you offline in terms of cashflow? This is very important. We don't want to get there, but it demonstrates you have thought about it.

DWM

And finally, do you have a thought for the day?

DH

If you really believe you have a great proposition, do not give up! Keep going. If you believe in yourself and the opportunity that you have, someone out there will listen to you. So don't give up.

DWM

Thank you very much.