

Seeking and Securing Finance For NI Tourism Businesses Webinar



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3 November 2020

TED

Tourism
Enterprise Development
Programme



tourism
northernireland

Presentation Context

- Webinar is being delivered as part of Tourism NI's new Tourism Enterprise Development (TED) Programme. Slides will be an Aide Memoire.
- Choosing the right type of funding depends on various factors relevant to your business. Hopefully this webinar will help you clearly identify the criteria that you should consider in choosing the type of funding required and appropriate funding partner for your business.
- Designed to help businesses operating within the NI tourism industry, this webinar will include an overview of the range of finance options available in the current market environment and the importance of cash flow management, along with some key insights on how to prepare your business proposal to successfully secure finance.
- Towards the end of the webinar, my colleague Ashok Thomas will provide practical tips on integrating appropriate financial modelling into your funding proposal.
- Acknowledged that one to one mentoring may be available to enhance knowledge and understanding of specific elements of Seeking and Securing Finance.

Covid-19 & Seeking and Securing Finance

- The evolving Coronavirus pandemic, means that we are currently living and working in unprecedented and extraordinary times. For businesses, operating in the NI tourism sector, most of whom have experienced a cessation or significant reduction in revenue through phases of non-trading, trading and again non-trading due to Government restriction and Public Health guidelines, there is no simple blueprint or road map forward, for seeking and securing finance, acknowledging that there may be unique issues being caused by the Coronavirus pandemic.
- Covid-19 will end, but the reality from a business perspective is, that we must plan for living with and post Covid-19.
- As highlighted in earlier webinars, an economic crises is a good time to take a holistic look at our business, including seeking and securing finance to **Reflect** clearer, **Respond** smarter and **Rebound** faster in the context of applying tomorrow's logic to today's turbulence.
- With the prospect hopefully of full trading re commencing shortly, now is the time to plan, to try and ensure your business is well placed to exploit the recovery of trading with and post Covid-19.

Covid-19 & Seeking and Securing Finance

- With the Out of State visitors market likely to take some time to come back to prior Covid-19 levels, the home market and staycations must be given top priority for marketing strategies with emphasis on the island of Ireland.
- A new business landscape is evolving with expected changes in market and consumer behaviour and attitudes. We will all have to learn to do business in different ways. As a result we must focus our attention on re-engineering our business model going forward to be effective in seeking and securing appropriate finance.
- Finance providers will also have adjusted their criteria to reflect the new economic challenges created by Covid-19. For example, they are likely to pay particular attention to the ability of the business to fund working capital requirements and may wish to review a tourism business' policy and risks re advance deposits and vouchers.
- Re advance deposits and vouchers, they may wish to know does your business ring fence these in a separate bank account and reflect as deferred income in accounts. Assess risk that these may have to be repaid back and the ability of business' to do this, and be reassured that the business is implementing the "matching principle" and is not using deposits or vouchers to fund working capital.
- Covid-19 supports and unsecured loan assistance.

Webinar outputs

Understanding of:

- Cause of funding requirement.
- Sources of Funding.
- Why CASH Flow Management is essential.
- Approaching and preparing a Proposal to seek finance.
- Utilising financial model to support Proposal.
- Assessing a funding Proposal.

Funding and Cash Planning

Planning is needed for the funding and cash the business requires, when it requires it, and where it will come from

All of this must be underpinned by risk assessment, forensic and sensitivity analysis – managing expected receipts and payments inclusive of any estimation error

The strategy for commercial revenue will vary significantly depending on the activity sector, size and product or service that the tourism business provides

However, there are many aspects of funding in these unprecedented circumstances that all tourism businesses will need to consider

Financial Barriers to Funding

- Funds are usually required to grow a business, whether this is to invest in plant and machinery, new premises, research and development, or entering into new markets. Without these funds it can be difficult to take advantage of opportunities as they arise, and therefore it is important to consider how funds can be obtained and best utilised by a business.



Cause of Funding Requirement

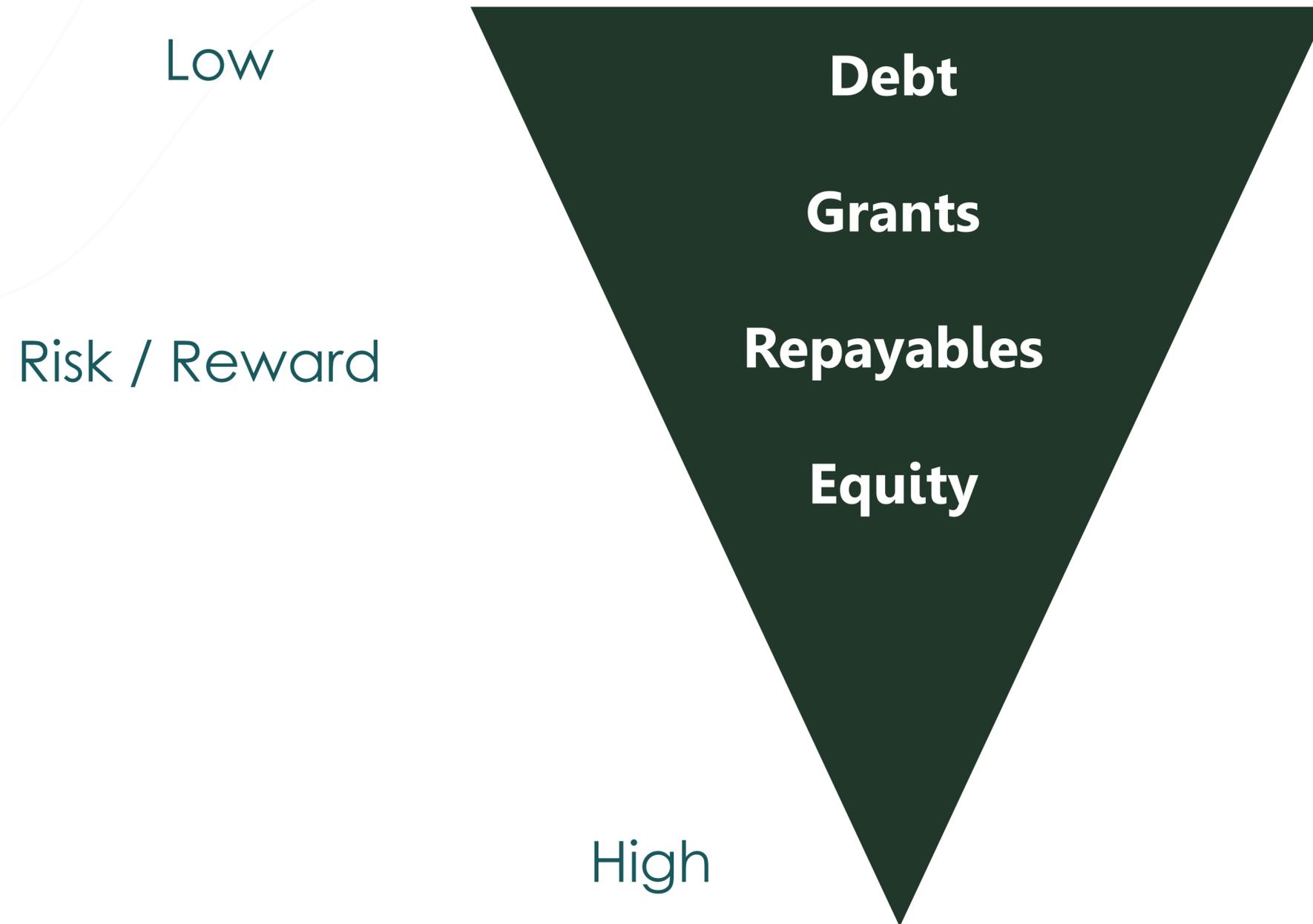
- Identify the cause of the funding requirement:
 - Funding cash losses
 - Working Capital
 - Capital Investment (property, plant and machinery)
 - Research & Development
 - International Trade and entering overseas markets
 - Business acquisitions



Sources of Funds

- Cashflow within business can be supported by seeking an extension from creditors or negotiating reductions on outstanding debts
- Refinancing of existing unencumbered Assets or sell assets that you do not need (surplus assets)
- Covid-19 Supports and Unsecured Loan Assistance
- Bank Debt – overdraft, loans, invoice discounting, and Asset Finance e.g. hire purchase / leasing / lease hire
- Promoters Equity (Ordinary Shares, Preference Shares, Quasi Loans)
- Working Capital Finance
- Grants / Financial Incentives
- Loan Funds
- Other alternative funding sources including Venture Capital, Business Angels, Private Investors, Enterprise Investment Scheme (EIS)
- P2P Loans and Crowdfunding

Types of Funding



Funding Cash Losses

- Available surplus working capital finance.
- Promoters funds (personal savings etc).
- Finance (loans and gifts) from family/friends.
- Covid-19 Supports and Unsecured Loan Assistance.
- Agreeing deferrals for existing business commitments.



Maintaining a Healthy Working Capital (we will refer later specifically to cash flow management)

Maintaining a healthy working capital is one of the most important factors if a business is to be successful. Depending on the nature of the business, there might be periods during the year when cashflow becomes restricted and therefore it is important to be aware of ways to improve the working capital position.

Ways to manage working capital:

Customers/debtors

- *Selling the debtor book*
 - Offering credit terms to customers is often a necessity in order to generate sales, but can mean it takes several months to receive those funds.
 - Invoice discounting or factoring can provide an immediate cashflow benefit to grow the business, rather than waiting for the customer to make a payment.
- *Early settlement discounts*
 - Encourages customers to pay early or on time.
 - This can reduce debtor days and improve cashflow to fund future growth.
 - Can reduce margins due to discounts offered, so it is important that sales and growth is sufficient to offset the loss of income as a result of discounts offered.

Maintaining a Healthy Working Capital (Cont)

(we will refer later specifically to cash flow management)

Customers/debtors (Cont)

- *Sales operations*
 - Are sales invoices going out in a timely manner>
 - Can work be invoiced sooner?
 - Are credit checks being carried out to safeguard against bad debt risk?

Loans/Debt

- Overdraft facility – is there a facility available to cover short term cashflow issues if required.
- Seasonal repayments – for businesses with a high level of demand over a certain period of the year, consider if the provider will agree to seasonal repayments, with higher repayments being made in the months that the cash is earned.
- Review interest payments – consider the interest rate being paid and if it could be modified or more worthwhile to consider repaying the loan and taking out a cheaper facility.

Maintaining a Healthy Working Capital (Cont)

(we will refer later specifically to cash flow management)

Stock/Work-In-Progress (WIP)

- Ensure the right level of stock (WIP) is being held. Too much stock could result in:
 - A higher risk of it becoming obsolete.
 - Theft.
 - Unnecessary storage costs.
 - Insurance premiums being too high.
 - Over staffing.
 - Unnecessary borrowings.

Leasing

- With constant changes in technology, it might be more efficient to lease equipment rather than purchasing outright.
- For existing equipment consider a sale and a leaseback transaction to provide an initial cash injection.

Family Members

- If working capital is restricted, there might be other ways to manage the situation before the costs of taking on more debt:
- Look at the management of the day to day operations, such as those mentioned above.
- See if family members could provide temporary loan assistance.

Funding the Acquisition of Property

Financing new premises can be problematic, especially where profits have been reinvested elsewhere in the business. Funding options might include loans, investing personal funds or obtaining grant funding.

External Finance

- Loans can be used to help finance the acquisition of the property.
- Often security of the property is required.
- In some cases personal guarantees might need to be given.

Grants

- Grant funding might be available to help fund the acquisition of property.
- This will depend on the objectives and priorities of a fund.
- Projects where funding might be available relate to areas of innovation, sustainability and job creation.

Funding the Acquisition of Property (cont)

Investing Personal Funds

- Personal wealth can be used in the business and might bring about better returns than other investments.
- Investment can be made in a tax efficient manner, preserving wealth for the owner of those assets and their family (e.g. SIPP or SSAS).

Tax Considerations

- Capital Allowances – the apportionment of the purchase price between land and buildings, qualifying plant and integral fixtures/features can influence the tax relief available to the purchaser on acquisition on property – on property 3% - PME 18%.
- Land Remediation Relief – additional Corporation Tax Relief of 150% is available on certain qualifying expenditure on the remediation of contaminated land.
- VAT aspects.
- Stamp Duty.

Funding New Plant and Machinery

Investing in plant and machinery is a common strategy used to grow the business. This growth can be achieved by improving productivity, internal efficiencies, or the quality of products or services. Funding options to reduce the initial cash outlay can include using hire purchase agreements or leasing solutions, as well as potential grant funding.

Consider purchasing assets via a hire purchase

- The cost of the asset can be paid over an extended period, reducing the immediate cashflow implication of an outright purchase.
- Tax relief in the form of Capital Allowances can reduce the effective cost of acquiring qualifying assets and provide a cashflow benefit where 100% tax relief might be claimed via the Annual Investment Allowance.
- Paying for the asset over time can allow for the cost and benefits derived from its purchase (increased revenue) to be matched more closely.

Funding New Plant and Machinery (cont)

Consider leasing assets to reduce upfront costs and reduce risk

- Costs will be incurred over the lease period and not in one lump sum, matching costs with benefits.
- Tax relief can be claimed on operating leases as rental costs are incurred.
- It is important to fully understand the way that the asset has been acquired through the lease agreement in order to: ensure the asset is correctly presented in the accounts and confirm the correct tax treatment.

Grants

- Grants can be used to assist with the purchase of assets, particularly if they are part of an innovative or sustainable project, or will help to create employment opportunities.

Loan Asset Finance

- Loan over expected economic life of asset.

Funding Research & Development

- Promoter's funds.
- Grants.
- R&D Tax Credits.

R&D

Funding Business Acquisitions

Opportunities can arise to grow a business via acquisitions, but a lack of funds can mean that opportunities are missed because the business is not in a position to secure funding. There are several finance options which can be used to overcome this issue.

Secured commercial loans

- It might be possible to obtain finance by leveraging against existing assets of the new acquired business.
- Consider the level of funding required, not only for the acquisition but on any integration of the business post completion.
- Are there any covenants to be imposed, which could affect the way that the business is currently operated?
- Are personal guarantees required?

Seller based lending

- A seller might be willing to agree for a proportion of the purchase price to be deferred and limited to certain performance conditions.
- The loan is usually paid back from the cash generated by the same business under new ownership.

Funding Business Acquisitions (Cont)

Personal Funds

- Family members may have personal wealth that they would consider introducing into the business in exchange for a regular income.
- This could also be very tax efficient for future estate planning.

Pension based income

- If family members have sufficient funds accumulated in their pension they could make a loan to the company (certain criteria must be met).

Potential investors

- If an acquisition target is too good an opportunity to miss, then the acquired business might consider an equity investor.
- Consider the future exit strategy for that investor.
- What skills/knowledge might they also be able to bring to assist with the integration of any business processes or governance policies.

Covid-19 SUPPORTS & Unsecured Loan Assistance

- NI Executive Localised Restrictions Support Scheme (effective from 19th October 2020)
- New Job Support Scheme (from 1st November 2020 for 6 months)
- Coronavirus Job Retention Scheme (CJRS) – furlough workers (ends 31st October 2020)
- Job Retention Bonus Scheme
- Self Employment Income Support Scheme (SEISS) – extended to April 2021
- Reduction in VAT rates for Hospitality & Tourism Sector (from 20% to 5% for 6 months to 31st January 2021)
- Eat Out to Help Out Scheme (3rd – 31st August 2020)
- Rates Relief
- Deferral of VAT / PAYE / Tax Payments and HMRC Time to Pay arrangements
- Bounce Back Loan Scheme
- Coronavirus Business Interruption Loan Scheme (CBILS)

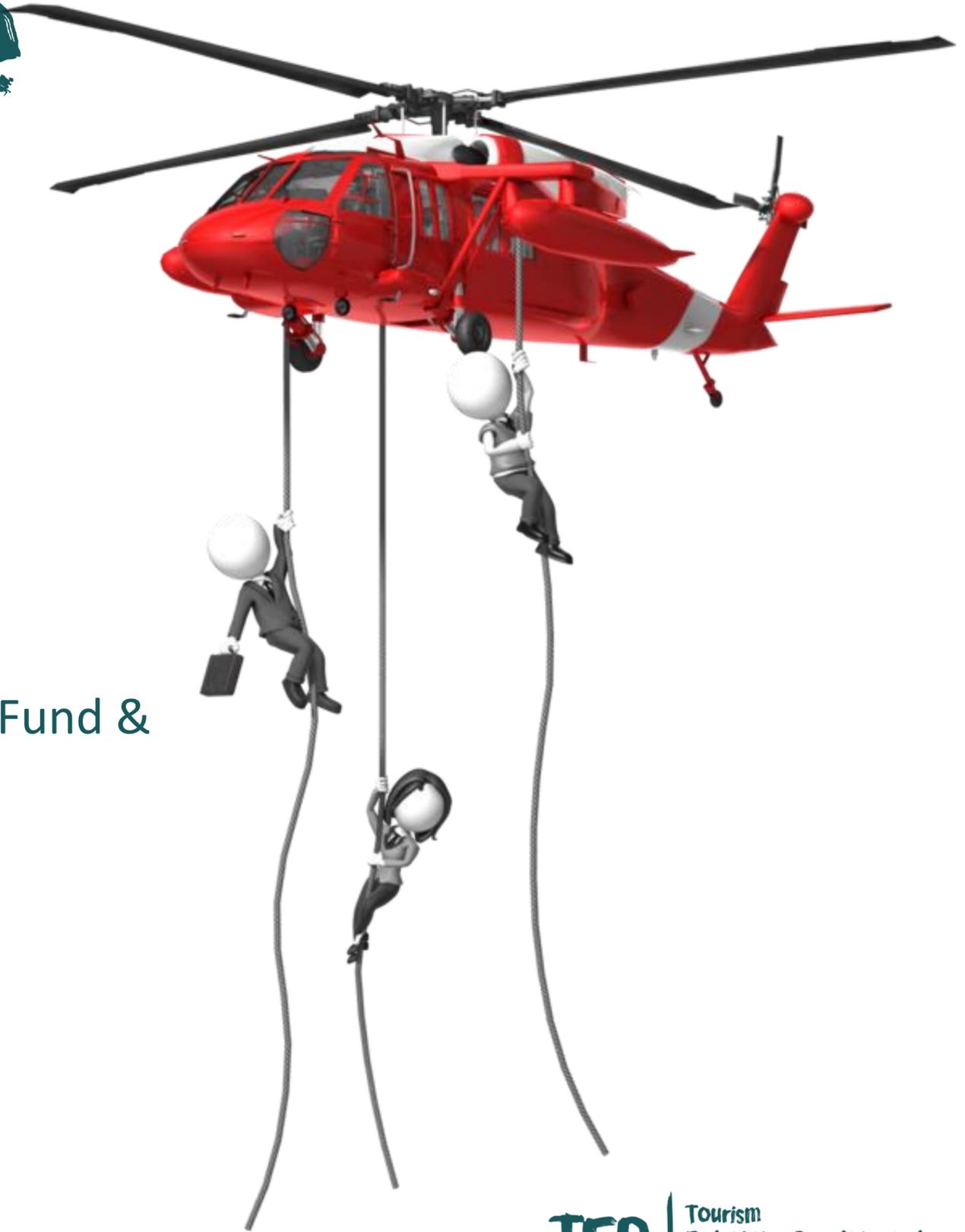
Traditional Bank Funding

- Working capital funding – overdraft, invoice discounting, stocking facility
- Asset backed funding – hire purchase, lease facilities, Chattels Mortgages
- Business growth/expansion – commercial loans
- Specialist funding – small business loans, EIB



Grant Assistance

- Tourism NI
 - Marketing Activities
 - Employment Grants
 - Training
 - Capital Investment
 - Research & Development
 - Arts Council, Big Lottery, Community Foundation, Heritage Lottery Fund & NI Screen
 - DAERA (RDC programmes currently closed)
 - Local Enterprise Agencies
 - Local District Councils
 - Cross Border Assistance (InterTradeIreland)
- Invest NI



Venture Capital/Business Angels / EIS

- Venture Capital provides long-term monetary investments in exchange for equity in a business – it is a form of risk capital, unlike bank debt no guarantee of repayment or interest.
- The majority of Venture Capital firms target business requiring over £150,000; mainly expansion stage companies and MBO's/MBI's. Business Angels tend to invest between £15,000 and £150,000, in start-up and other early stage financing.
- Business Angels Networks feature highly – successful, self-made entrepreneurs who look to acquire shares in potentially lucrative early stage companies using their own funds.
- The government Enterprise Investment Scheme (EIS) provides tax relief to investors who invest in businesses that meet specific criteria. EIS is great for SMEs as it provides an added incentive for investors.



Peer-to-Peer (P2P) Loans and Crowdfunding

P2P Loans

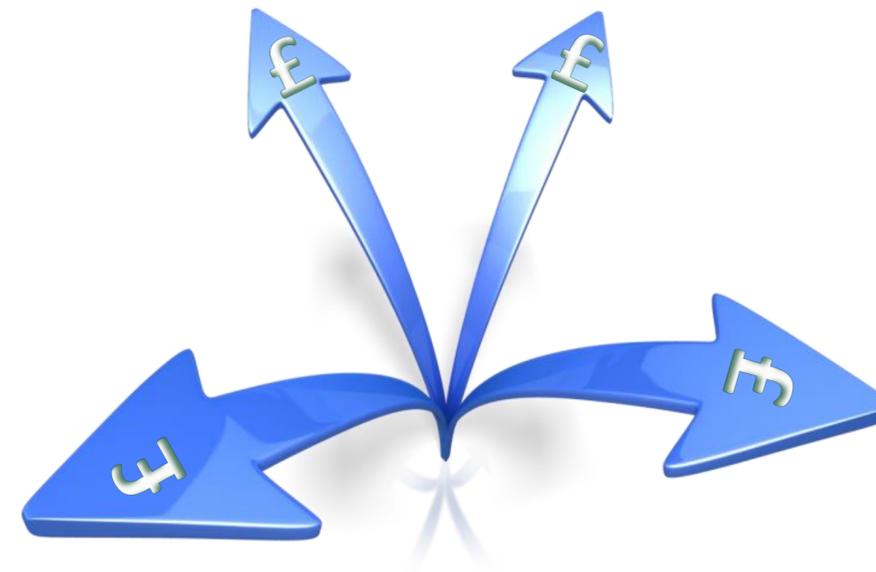
- Peer-to-Peer lending platforms (e.g. Funding Circle) arrange loans from groups of individuals or organisations to entrepreneurs looking to grow. It's a way for a business to get funding without having to visit a bank, and lenders can use the platform like a marketplace, where they choose, who they want to lend money to

Crowdfunding

- Crowdfunding portals offer a wealth of lending opportunities for start-ups and entrepreneurs. They can pitch on crowdfunding website for a sizeable investment in their business model, with the ability for multiple investors to invest small amounts towards achieving that final total. Unlike traditional forms of business finance, crowdfunding is not directly repaid. Start-ups may instead opt to offer their investors some form of service in return for their financial support, such as a free sample of their product

Alternative Sources of Finance

- Invest NI Access to Finance Strategy:
 - NI Small Business Loan Fund (£8m)
 - Growth Loan Fund II (£30m)
 - Growth Finance Fund (£30m)
 - Co-Fund NI II (ERDF)
 - Delivered by Clarendon Fund Managers
 - £50m Equity Fund
 - www.cofund.com
 - Crescent IV (ERDF)
 - £54m for technology, life sciences and manufacturing sector
 - Techstart NI (ERDF)
 - £30m Equity Fund for seed / early stage SMEs / University Spin outs



Funding Providers

- Key criteria for funding providers:
 - Level of funding required and for what purpose?
 - Ability to repay borrowings (if applicable)
 - Business case – is this realistic?
 - Growth potential for business
 - Project promoters – ability to deliver project



ACCESSING FUNDING

Basic Funding Principles

- Borrow for long term needs with long term debt
- Borrow for short term needs with short term debt
- Match term of Loan/Lease/HP Agreement with expected useful economic life of asset
- Difficult economic climate but Banks (albeit with Covid-19 assistance from government) are funding businesses that they consider to be viable post Covid-19 pandemic



Why is Cashflow Management Essential?

Covid-19 has caused significant disruption to cashflow

- Decline in current and future sales
- Issues with debtor collection
- Reduction in suppliers credit
- Increase in costs for certain materials due to supply issues
- Increase in costs to facilitate meeting social distancing requirements
- Forex rates volatility
- Delays in receiving grants/supports
- Impact on supplier credit terms
- Stock holding

Why is CashFlow Management Essential? cont...

Cash Flow Management helps to Navigate the Way Forward

- Helps chart the way forward for the next 6-12 months
- Helps to ensure the business is protected and able to recover quickly post the pandemic
- Ensures that you only borrow what you require and able to service
- Helps honour commitments to suppliers and employees
- Assists in planning the right combination of various Government backed lending and supports to avail.
- Useful to plan various scenarios including extended disruption period

Freeing UP Profits

“Are You Sure I Made a Profit?”

**I have less money now than
I had at the start of the Year.**



Cash is NOT Profit

- **Profit** is the difference between the total amount your business earns and all of its costs, usually assessed over a year or other trading period
- **Cash** is the amount you have on hand to pay debts
- You can be showing a good profit on the books and still be strapped for cash to cover immediate debt
- Working capital management will impact cashflow
- Risk of over trading – i.e. when the business expands too quickly without having the financial resources to support such a quick expansion. If suitable sources of finance are not obtained, overtrading a problem of rapid growth, can lead to business failure



Freeing up Profits

Business A		
	P&L (£)	Paid (£)
Sales	100,000	40,000
CoS	80,000	30,000
Profit	20,000	
Net Assets	20,000	

Business B		
	P&L (£)	Paid (£)
Sales	100,000	20,000
CoS	80,000	50,000
Profit	20,000	
Net Assets	20,000	

From a cash flow perspective:

Company A: Trade Debtors £60,000, Trade Creditors £50,000, positive cashflow £10,000 (Bank £10,000)

Company B: Trade Debtors £80,000, Trade Creditors £30,000, negative cashflow of £30,000 (Bank overdraft (£30,000))

Note Net Profit and Net Assets are the same for Company A & Company B

Cash Management

- Cash is the life blood of any business.
- Quality internal management information and Cash Flow forecasts are essential.
- Try and move from focusing on what credit the banks will provide business, to generating cash within your business.
- Businesses should endeavour to be self sufficient from a working capital / day to day operations perspective).
- Robust, rigorous and regular reporting (4 R's) on cash flow – daily bank reconciliations, weekly and monthly forecasts.
- Self discipline and good management will yield positive results by improving profitability and reducing risks.



Working Capital/Cash Management

3 Core elements of Working Capital Cycle which will absorb cash requirements:



What is Cashflow?

- The three components of cash flow:
 - Cash on hand at the beginning of any period
 - Monies received and spent during an ensuring period
 - And the cash remaining at the end of that period

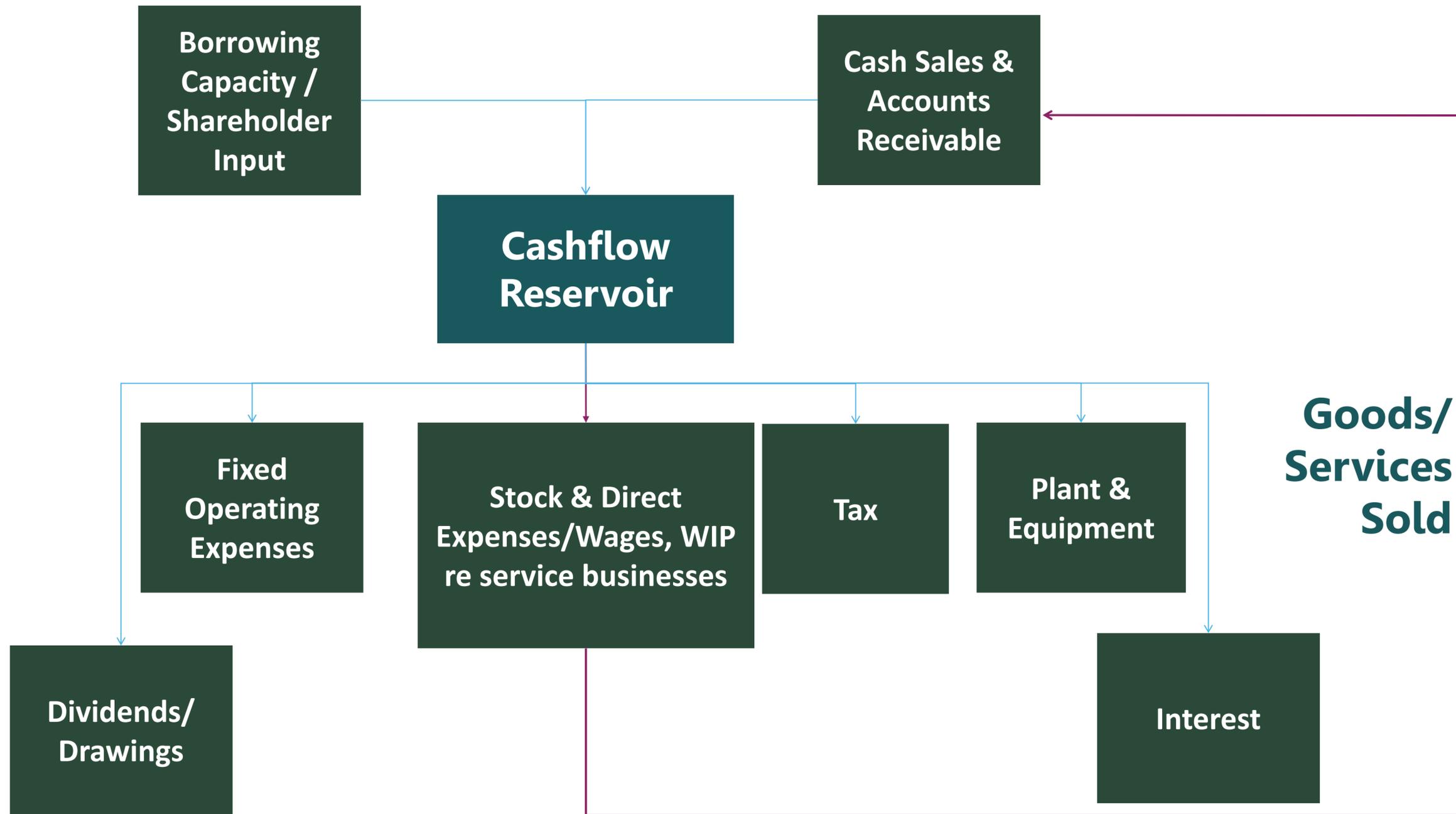


Cash Inflows and Cash Outflows

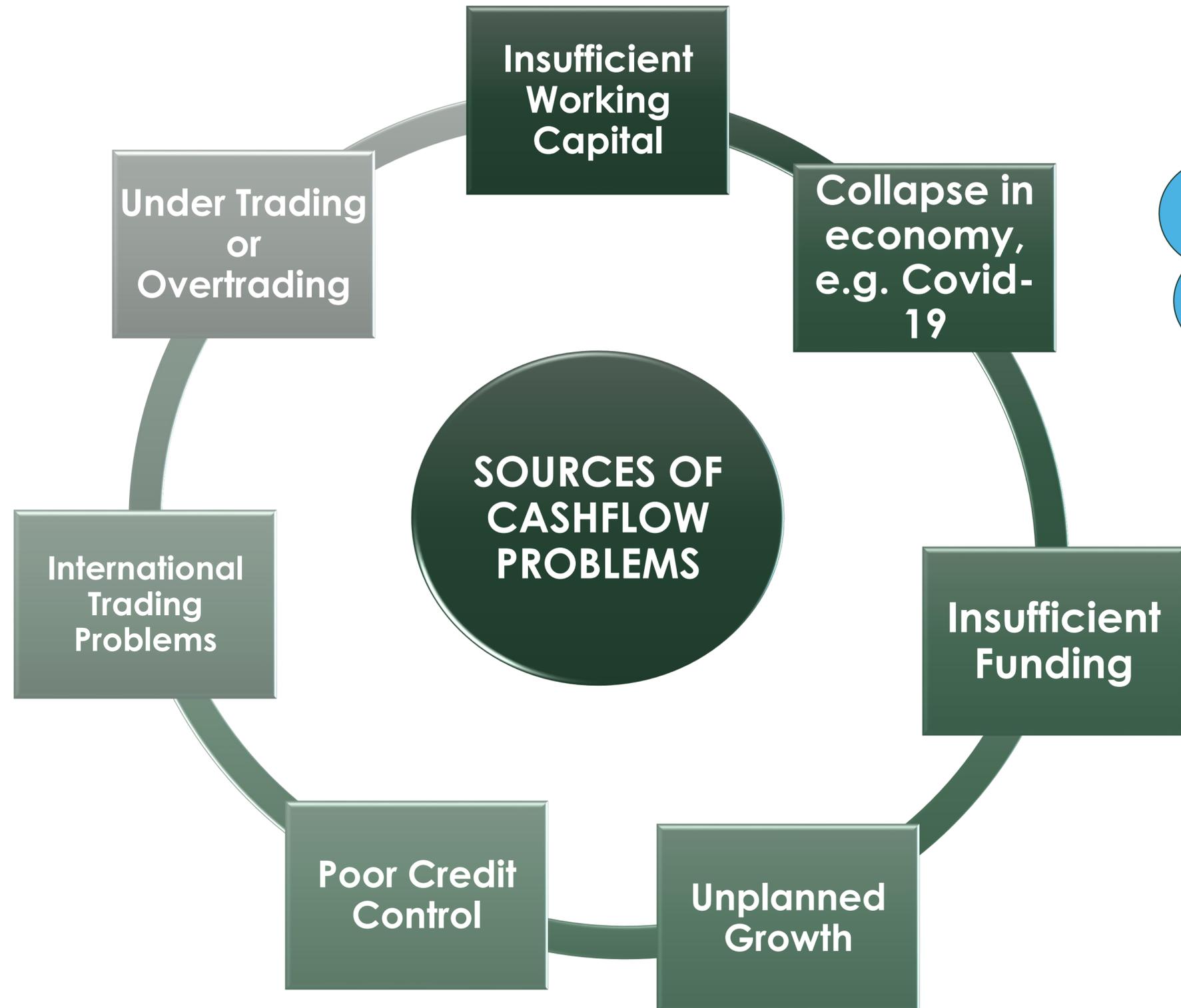
- Cash flow management is basically about speeding up the inflows and slowing down the outflows.
- Income and expenditure cash flows rarely coincide BUT you **must always** be in a position to meet your scheduled payments.
- This means there can be times when you could simply NOT have enough ready cash to meet your commitments.



The Cash Flow Cycle



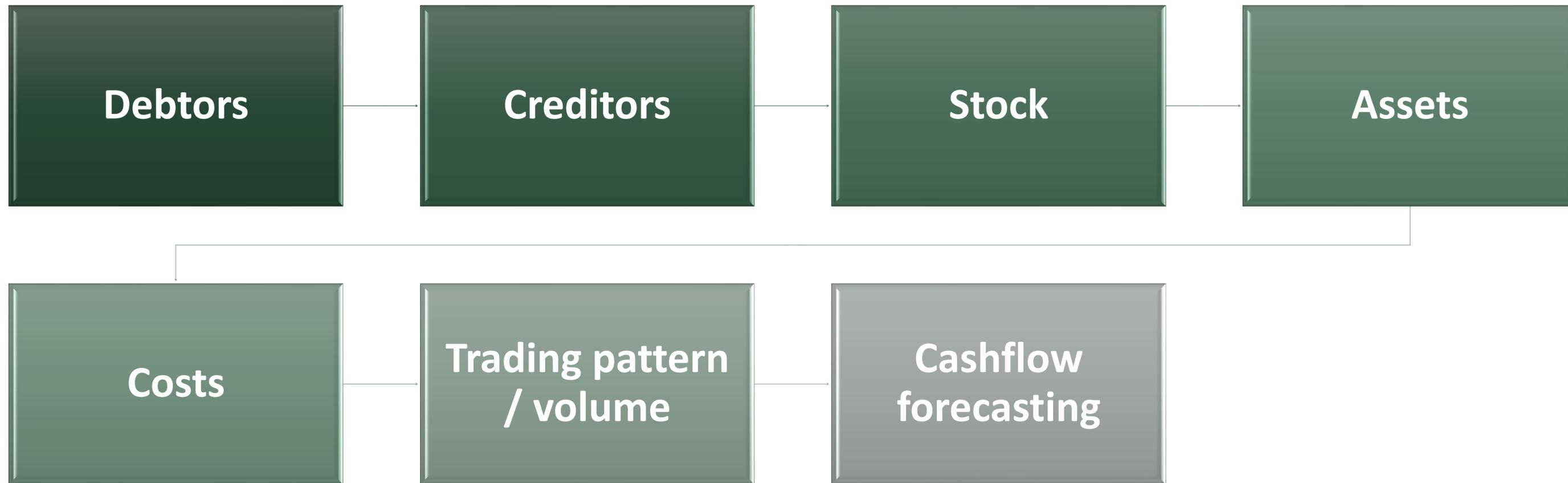
Sources of Cashflow Problems



Awareness of these issues are key to seeking and securing finance

Improving Cash Flow

- To improve cash flow you need to work on the drivers of cash flow:



Approaching the Bank

(Core principles apply to most funders)

Points to Note

- Banks are keen to work with their existing clients and build on trusted relationship.
- A sensible mix of debt and equity is important. Banks are not there to take an equity risk for a banking return.
- Banks will want to see project promoters accepting some pain.
- Commerciality/Reasonableness Check.
- Does the Bank Proposal look realistic in the context of the market, competitors, returns etc.?



Index for Bank Proposal (similar for other Funding Proposals)

- Executive Summary
- Business Overview
- Coronavirus Impact
- Historic Financial Position
- Outline Business Case Going Forward
- Financial Projections with achievable and realistic Assumptions
- Funding Requirement & Funding Request
- Identify KPI's and Smart Objectives
- Apply Sensitivity and Scenario Analysis
- Conclusion

Executive Summary



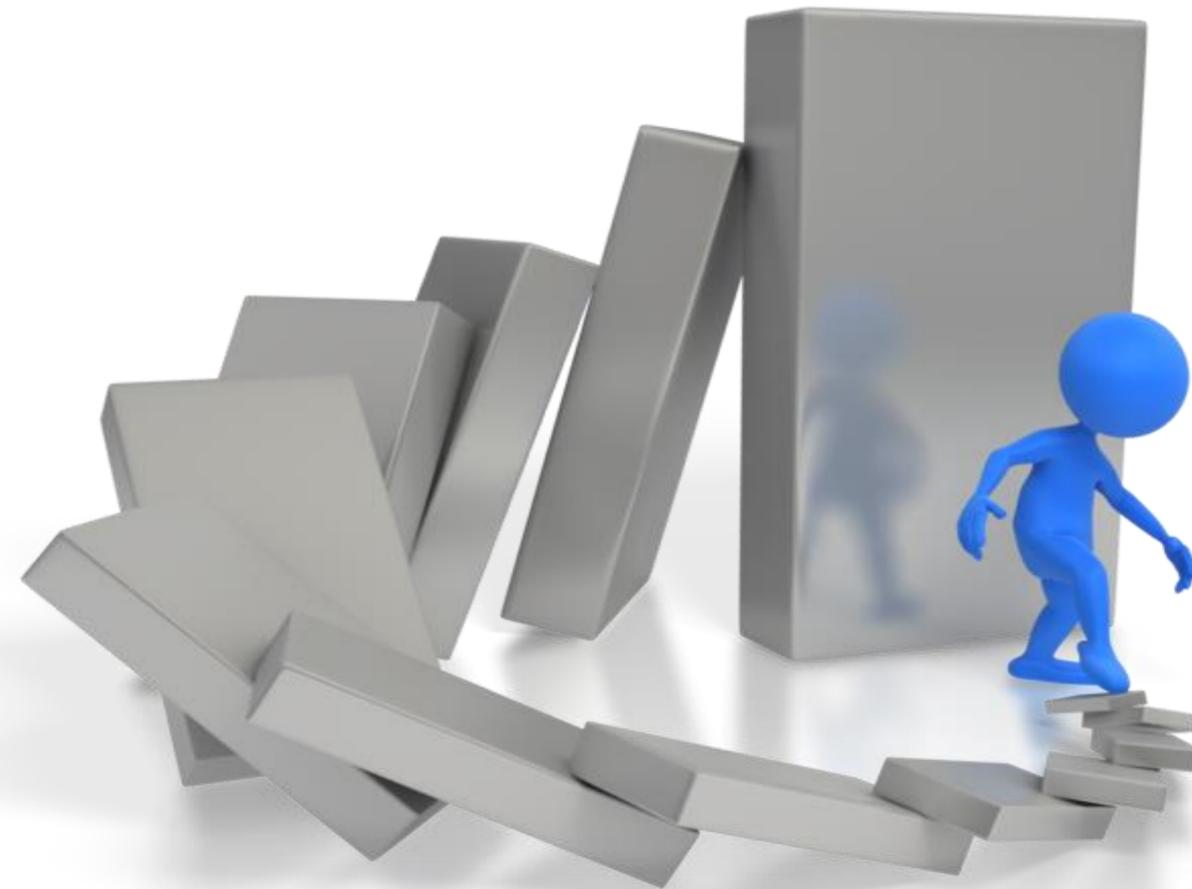
Business Overview

- A brief overview of the business operations and market in which the business operates
- Where relevant, provide details of changes to be made to the management or wider organisation as a result of the Covid-19 crisis. Highlight management expertise / roles / responsibilities subject to bank's knowledge of the business and its management
- Any additional relevant background to the proposal that would be helpful for the bank to understand – for example if you believe that Brexit will have a major impact on your business.



Coronavirus Impact

- Highlight the key issues experienced by the business and identify risks as a result of the virus (e.g. trade, staff / payroll, supply chain, customers etc.)
- Try and assess the impact of Coronavirus on:
 - Current and future sales revenue (including loss of out of state visitors in short-term)
 - Costs of purchases
 - Supply chain
 - Anticipated availability of labour
 - Debtor collection
 - Supplier credit terms



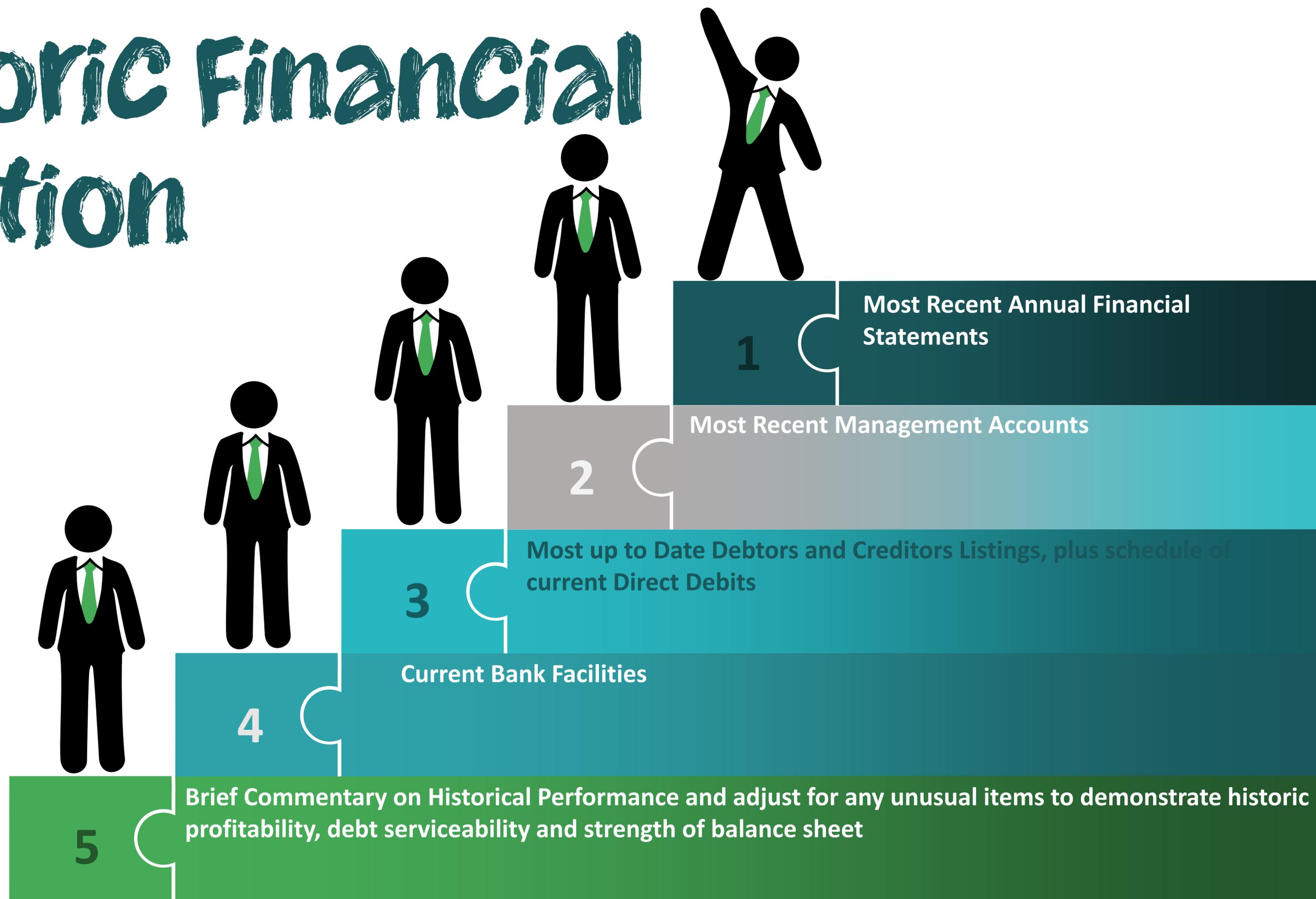
Coronavirus Impact cont...

- Linked to the key risks highlight the steps taken to mitigate and manage cash flow to date, including any opportunities that the business has had to avail of Covid-19 supports provided by UK government and the NI Executive e.g.:
 - Rates Relief
 - Deferment of VAT, PAYE, Income Tax and Corporation Tax payment / Tax Refunds
 - Deferring H.P. Payments / Loans / Mortgages
 - Extension of credit from suppliers
 - Coronavirus Job Retention Scheme (CJRS) and new Job Support Scheme
 - Self Employment Income Support Scheme (SEISS)
 - NI Executive Localised Restrictions Support Scheme (from 19 October 2020)
 - £10k Small Business Support Grant
 - £10k Small Business Support Grant for Rental Properties and Properties with a total NAV of £1,500 or below
 - £25k Retail, Hospitality, Tourism and Leisure Grant
 - Hardship Fund
 - Coronavirus Business Interruption Loan Scheme (CBILS)
 - Bounce Back Loan Scheme (BBLS)

Coronavirus Impact cont...

- Describe the cash flow constraints and challenges that are arising.
- Details of any actions you have been taking to address Covid-19 business implications (e.g. Social Media activities etc.)
- Details of any scenario planning that has been run to estimate the cash requirement.

Historic Financial Position



Outline Business Case Going Forward

- Covid-19 pandemic will be temporary, albeit we are not sure when it will end. We must plan to be in a position to have a potential sustainable business going forward, to exploit the recovery when it comes
- From a business perspective, perhaps focus on preparing for the recovery and the 3R's – how you plan to **R**eset, **R**efocus and **R**ebound faster
- Good idea to include any opportunities that you have identified as a result of Coronavirus
- How are you planning to address social distancing requirement, what cost / resources
- Also address potential change in customer profile, less international visitors, perhaps opportunities for staycations, there is expected to be an increasing desire for leisure given change in daily life, but need to bear in mind disposable income habits to drop
- Potential changes in food demand, e.g. healthy foods

Outline Business Case Going Forward cont..

- Perhaps need to expand if relevant the availability of your service - believed demand for 24/7 services will increase
- Younger generation less fearful, perhaps a need to look at your customer tolerances etc. and plan
- Develop strategic alliances with various activity tourism providers



Financial Projections with Achievable and Realistic Assumptions

- Nail the Financial Model – include integrated monthly cash flow, Profit & Loss Account and Balance Sheet for at least 12 months (seek help from an accountant) and extend until period of perceived normal trading – 2 years???
- Achievable and Realistic Assumptions:
 - Opening Balance Sheet
 - Sales
 - Cost of Sales
 - Divide cost base between fixed, variable and semi-variable
 - Outline key components of working capital and how these will operate: debtors, creditors, stock / WIP (e.g. any obsolete stock) and cash management
 - Policy re advance deposits and vouchers
 - Labour Resource, reflecting any furlough assistance, arising from designating some employees “furloughed”
 - Nature of Finance e.g. bank overdraft / term loans etc.
 - VAT
 - Post pandemic staffing requirements may reduce, so there maybe redundancy costs to finance
 - Social distancing costs
 - Finance Costs
 - Proposed Capital Expenditure
 - Grants

Financial Projections

Why does the funder want
**Financial
Projections?**

1 Funding Requirement

2 Debt Serviceability

3 Assess asset base

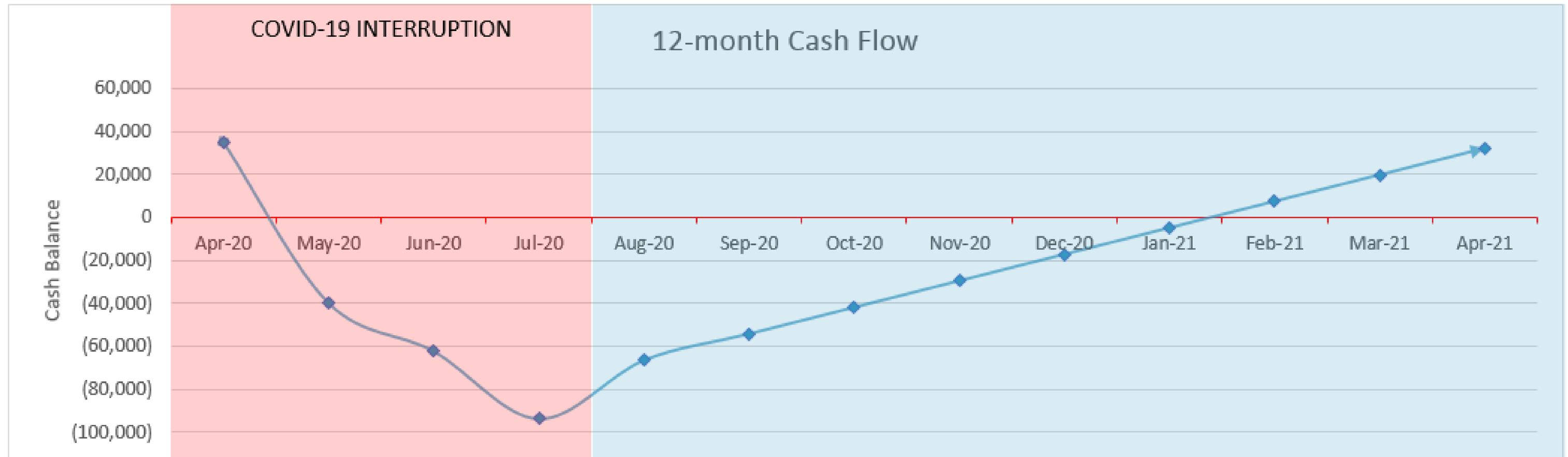
Assess funding need

Cash Flow Projections

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
Opening Bank Balance	35,000	(39,650)	(62,100)	(93,550)	(66,400)	(54,100)	(41,800)	(29,500)	(17,200)	(4,900)	7,400	19,700
Receipts												
Sales	6,000	12,000	6,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Debtors opening balance	-	25,000	35,000	-	-	-	-	-	-	-	-	-
Coronavirus Job Retention Scheme	-	15,600	7,800	-	-	-	-	-	-	-	-	-
Total Receipts	6,000	52,600	48,800	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Payments												
Cost of sales	(30,000)	(21,600)	(26,400)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Salary costs	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)
Administration costs	(6,000)	(6,000)	(6,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)
Marketing costs	(1,200)	(1,200)	(1,200)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Other costs	(12,000)	(12,000)	(12,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Creditors opening balance	(5,000)	(15,000)	(10,000)	-	-	-	-	-	-	-	-	-
VAT payment/(refund)	0	7,200	4,800	7,100	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)
Deferred VAT payment	-	-	-	-	-	-	-	-	-	-	-	0
Fixed asset purchases	-	-	(3,000)	-	-	-	-	-	-	-	-	-
Loan Repayment	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)
Total Payments	(80,650)	(75,050)	(80,250)	(92,850)	(107,700)							
Closing Balance	(39,650)	(62,100)	(93,550)	(66,400)	(54,100)	(41,800)	(29,500)	(17,200)	(4,900)	7,400	19,700	32,000

Assess funding need

Cash flow projections



Debt Serviceability

P&L Projections

£'000	ACTUAL FY 2020	FORECAST Year 1	FORECAST Year 2	FORECAST Year 3
Sales	30,295	35,000	42,000	50,000
Cost of sales	(22,153)	(26,000)	(31,000)	(37,000)
Gross Profit	8,142	9,000	11,000	13,000
Employee costs	(3,991)	(4,787)	(5,276)	(5,704)
Sales & Marketing	(1,180)	(1,620)	(1,920)	(2,280)
Other Overhead Costs	(1,761)	(1,693)	(2,404)	(3,416)
Depreciation	(138)	(474)	(430)	(432)
Operating Profit	1,072	426	970	1,168
Interest	0	(59)	(50)	(45)
PBT	1,072	367	920	1,123
Taxes	(157)	(146)	(235)	(295)
PAT	915	221	685	828

Debt Serviceability

P&L Projections

£'000	ACTUAL FY 2020	FORECAST Year 1	FORECAST Year 2	FORECAST Year 3
Cashflow available				
Operating Profit	1,072	426	970	1,168
Depreciation	138	474	430	432
Total	1,210	900	1,400	1,600
Loan Repayment				
Capital	-	601	610	615
Interest	-	59	50	45
Total Debt Service	-	660	660	660
Debt Service Capacity		1.36	2.12	2.42

ASSESS ASSET BASE

Current and project Balance Sheet

£'000	ACTUAL FY 2020	FORECAST Year 1	FORECAST Year 2	FORECAST Year 3
Tangible Assets	386	2,867	2,722	2,770
Intangible Assets	0	0	0	0
Total	386	2,867	2,722	2,770
Working Capital				
Debtors	3,735	4,315	5,178	6,164
Stock	4,980	5,753	6,904	8,219
Other assets	512	512	512	512
Creditors	(4,125)	(4,687)	(5,647)	(6,813)
Other liabilities	(1,069)	(1,059)	(1,148)	(1,208)
Total	4,033	4,835	5,799	6,875
Bank				
Bank balances	1,109	1,572	2,398	3,339
Total Bank Balances	1,109	1,572	2,398	3,339
Net Assets	962	1,984	3,630	5,694

ASSESS ASSET BASE

- Include detailed breakdown of all tangible assets in the balance sheet
- Refer to independent third-party valuation reports for property and investments held
- Indicate whether there is a charge on these assets
- For existing and new debt - outline all current facilities and repayment structure
- Include detailed breakdown of working capital

Assessing a Funding Proposal

Financial Analysis – Key Ratios

- Sales trends
- Gross margin trends
- Net profit margin trends
- Productivity/Value Added Ratios
- Working Capital as a percentage of sales
- Debtor/creditors days
- Debt/Equity



Financial Analysis

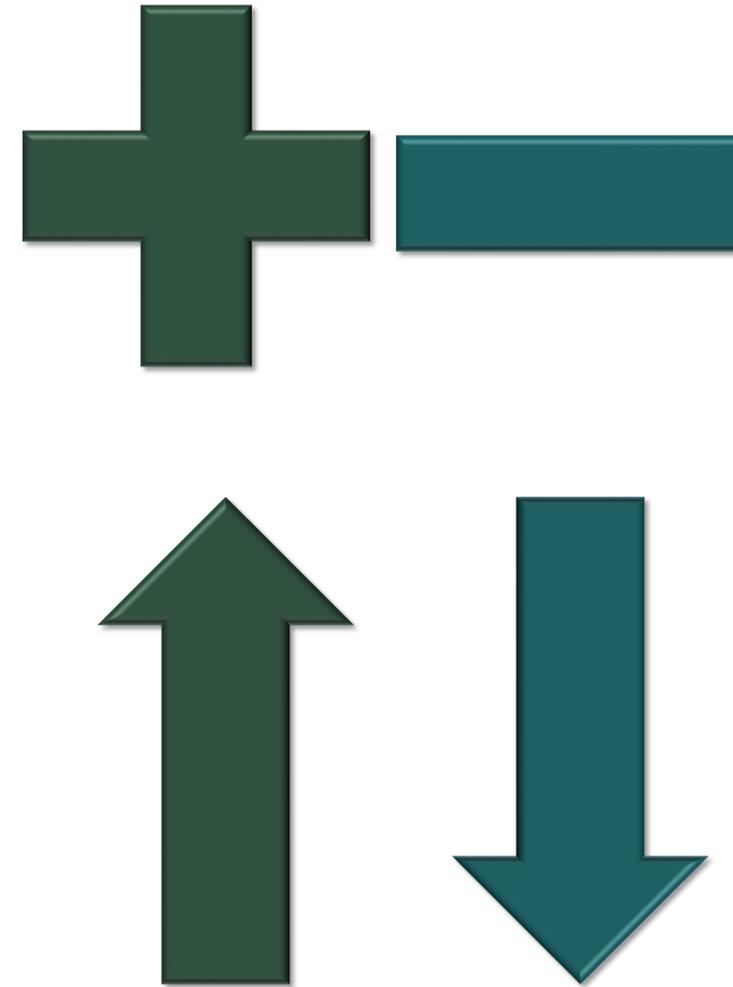
Finance providers – Key Ratios

- Times Interest Cover =
$$\frac{\text{EBITDA}}{\text{Interest}}$$
- Debt Service Capacity =
$$\frac{\text{EBITDA}}{\text{Loan \& Interest Commitments due within one year}}$$
- Leverage % =
$$\frac{\text{Bank Overdraft + Finance Creditors + Bank Term Loans}}{\text{Net Assets + Bank Overdraft + Finance Creditors + Bank Term Loans}}$$
- Loan to Value % =
$$\frac{\text{Total debt Facilities}}{\text{Value of Security Held}}$$

Financial Analysis

Sensitivity Analysis

- Delay in commencement of full trading by 2 months
- Sales 20% individually up or down
- Gross profit 20% up or down
- Working capital 20% up or down
- Capital expenditure 20% up or down



Review of Bank Relationship

- Regular review/understanding of contents of facility letters.
- Review of security provided to bank.
- Financial covenants to be adhered to.
- Requirement to present regular financial information.
- Regular communication/updates to bank.
- Involve Accountant in process.



Preparing a Pitch for Finance

Do's



- Is there a funding requirement and define it. ✓
- Calculate cost of obtaining finance. ✓
- Match borrowings with the life of the asset. ✓
- Discuss various options with Business Advisor. ✓
- Be aware of risk versus reward. ✓
- Think about the funder's decision making process. ✓
- Shop around (if relevant). ✓

Preparing a Pitch for Finance

Dont's



- Over commit the business – ensure there is an ability to repay. **X**
- Go to meeting with potential Investors unprepared. **X**
- Ignore the basics of good management. **X**
- Use short-term finance to fund long-term plans. **X**

Bank Funding

Common shortcoming reported by Banks in applications seeking funding:

- Generic proposal not specifically tailored
- Excessive commentary and periphery analysis
- Inappropriate sensitisation of financials
- Appropriate funding mix not identified
- Insufficient challenge from advisor



Bank Debt

Final Thoughts

- Banks aren't there to take equity risks.
- Banks back people not projections.
- Focus on the commercial reality underlying the cashflows.
- Don't be too aggressive - build in head room even if it means more equity.
- Be willing to invest in the Banking relationship.
- Difficult banking environment at present but with Covid-19 supports from Government such as Coronavirus Job Retention Scheme, Job Support Scheme, Self Employment Income Support Claim, Coronavirus Business Interruption Loan Scheme and Bounce Back Loan Scheme, good projects are getting banked.



HOPE & CONFIDENCE

- For recovery, growth to take hold, confidence must replace fear and we must convert natural anxiety, into a passion to deliver positive results.
- We must approach the future with great hope and confidence in our own ability – to offer best practice, because:

The fittest will survive and evolve much stronger from our current difficulties



HOPE & CONFIDENCE



- We have got to keep pedalling, because if we stop, we will fall off – thus we must keep moving forward and never be complacent with funding and cashflow management – retain a constant state of nervousness and focus on: **Relevance, Sustainability and Trust.**

Conclusion

- There is no doubt, that the economic implications of Covid-19 for businesses operating in the NI Tourism sector are very challenging, but they pale in comparison to the public health and human costs that we are observing around us.
- It is very difficult to predict the future market dynamics, because we are now faced with triple Covid-19 uncertainty: firstly around the Coronavirus itself; secondly, its economic impact, and thirdly, the ways in which the pandemic has, and will, affect people's behaviour.
- Astute business leadership in terms of seeking and securing finance in the context of funding and cash flow management will be key to business sustainability.
- Our present circumstances don't determine, where we can go, they merely determine where we start.

Conclusion (cont).

- Sometimes we can **not** control the events around us. **But** we do have the **ability** to **choose** our **response**.
- As sure as night follows day, individuals make **CHOICES** everyday, **individual actions matter and can be a force for change**. Let's try and make **every moment count**.
- Effort is admirable, but its output that matters most.
- If today's webinar has raised an issue or question that you would like to discuss in private, you can get in touch via email to: industry.development@tourismni.com and Tourism NI will organise that you get a call from a finance expert.
- Looking forward to participating in the Q&A session now.
- Thank you.

Questions & Answers

Thank
you

