

# JEC COMPOSITES MAGAZINE

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# Finding funding



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With rapid growth and the constant delivery of innovative new technologies remaining key characteristics of the advanced composites market, it is no surprise that enterprises within the sector often need to raise additional capital.

Turning new ideas into market-ready products, and positioning them successfully in the composites value chain, can be an expensive exercise but R&D and product development are not the only reasons a composites manufacturer might look to raise funds. Expansion into new global markets, unlocking capacity constraints with production capital expenditure, building the business infrastructure for

future growth or simply managing the operating cashflow through a start-up's initial years of business all see manufacturing companies searching for the most efficient forms of funding.

### Business relationships

But if growth is fast, and when you are working at capacity sooner than planned, corporate finance is often considered only when there is a relatively short-term need. And that can be too late to get the most fitting funding, the most suitable finance

partners, and the business relationships that pay dividends in the long term. Be ahead of the curve. An investor wants to see evidence of strategic planning, for capital efficiency and for future growth, not rushed fund raising.

When making the strategic decision to seek external funding, ensure that all shareholders are completely on board, preventing any issues later on. With the decision made, an organization must identify the types of lenders that will offer the best fit with their business. At this point, it can be extremely useful to engage the services of an experienced advisory – specialists that offer a deep market understanding and the ability to establish effective communications between the financial world and an advanced composites manufacturer.

### Advanced composites market

In this regard, the advanced composites market, with its massive diversity in end-use applications and fragmented value chain spread across so many markets, demands more investor attention than many other fields. This is not to say that composites and their

complexity can turn investors away, just that what industry insiders see as everyday technology and terminology needs to be explained. Offering a clear and concise summary of the technology and the accessible market not only demonstrates that a potential investor's fund would be in safe hands but can also expand the available investor pool with more fund holders happy to engage.

Different sources of funds such as non-repayable grants, loans with varying repayment periods and share equity with profit-related dividends are provided by lenders with differing approaches and unique needs to satisfy their risk assessments and lending requirements. Correctly describing a manufacturer's technical uniqueness is key, as is the overall view of its market position, customer demand and market share versus competitors. It is vital to present a potential lender with a reassuringly clear picture of this advanced materials landscape, supply chain and competing players to enable finance providers to be decisive about the risks and benefits involved.

### Private equity (PE)

One source of funding that



The process of raising additional capital

pays particular interest in the composites sector is private equity (PE). PE firms list a wide range of different investment criteria on their websites; assembling as many potential investors as possible for whom you hit the criteria sweet spot is important to get discussions and ultimately offers into the right perspective.

PE investment criteria are usually clear: some are focused on sectors such as manufacturing and many focus on a geographic region and certain level of maturity of the business. Typically, they have an envelope of maximum/minimum size measured by enterprise value or EBITDA and specialise in a particular reason for investment – family succession, corporate spin-off or management buy-out. It is important also to be aware of how a PE controls its investment once established and the degree to which it gets involved in assisting the detailed business discussions beyond finance. For PE, and indeed for other types of investors, it is also important to be clear about the investor's exit strategy – what is likely to be the timing for a typical investment in the portfolio it would join and how does that fit with the timing of events in the business.

### Fund-raising cycle

Preparing for and executing a fund-raising cycle typically involves a set of key preparatory and transactional steps much the same as if you were looking to sell the business. In both cases, an external view and additional dedicated resources can speed up the process and improve the terms of the final transaction. These steps are the following:

### Establishing a valuation –

With the broad scope of the composites industry comes a wide range in valuations, however, commonalities do still exist. Key metrics such as multiples of revenues, profits, and gross profits can all be developed with the support of your advisory team. Take time to understand the valuations offered by potential investors and be cautious of anomalous high values that can spell trouble later.

**Finance sourcing** – Meet as many investors as you can. This helps you gauge how they act. Developing a target list of the most suitable growth capital sources is strongly improved by knowledge of the finance markets, the growth stage of the business and type of funding required.

### Information memorandum

– Your business must look and sound attractive. To correctly convey the attractiveness of your value proposition to prospective investors, the company documentation must present the company in a professional and credible manner, appropriate to the objectives of the expected readership.

**Negotiations** – A key phase where additional support can be required is to use appropriate strategies and tactics to negotiate a successful transaction with capital providers more used to this type of deal structure than a composites manufacturer. Often a third party can help by intermediating in the discussions.

**Due diligence** – While investors will all have their own due diligence processes, it is essential to prepare in advance.



Finding funding requires real preparation

### Focus

Specialising in business development, strategy formulation and acquisitions, senior consultant Peter George brings more than 20 years of management and marketing experience in the speciality chemicals and advanced materials sector to the FMG senior team.

Peter has held director and senior management roles at organisations including Huntsman, Gurit, FORMAX, DYN0 and SCIGRIP. He has an MBA from the Open University in the UK, as well as an MA in Natural Sciences from the University of Cambridge, where he specialised in materials science.

A well-prepared secure data room – a central storage for financial, operational and marketing information that can be used for all due diligence communications – also gives a good impression as to how the business will be run in the future.

### Documentation and closing –

With all terms negotiated and finalized, strong coordination of all documentation and deadlines is now required to keep the deal moving and ensure things conclude smoothly in line with the deadline you have set. Again, a third party can help maintain the momentum of this process.

### Some final points to keep in mind

Investors are always comparing an investment with another destination for their funds.

Your proposal just has to be more convincing than the others; it must be more appropriate to the investor's aims and have well-evidenced answers to concerns that paint a better prospect than that painted by alternative bidders for the same funds.

There is no such thing as easy money. The key criterion for a good partner is a strong underlying business model rather than a convenient contact. A partner who seems easy at the start may well be difficult during the process or later in the ownership if there is not enough scrutiny at the outset. Challenging and experienced investors will be the ones that move your business forwards. □

More information:  
<http://futurematerialsgroup.com/>