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## Funding Options for ICT Businesses – Here's how to grow in 2017

There's better access to funding for IT & Telecoms businesses than ever before



by **Rob Scott**  
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As the current economic climate becomes more difficult to predict, ICT businesses can face challenges when raising finances for their organisation. The result has been hundreds of businesses searching for innovative ways to raise the capital they need to thrive. The methods that you considered in the past, including asset-based lending, might not be the best for today's markets.

With so many different financing options available, we're going to help you to get a better understanding of three of the most significant opportunities out there, so you can make an informed decision about which is best for you. Remember, the best way to ensure the safety of your financial choices, is to access the professional guidance of an advisors. These experts have the experience and know-how to help you navigate all kinds of funding options.

### Mezzanine Debt

Mezzanine debt is a type of hybrid equity and debt financing which acts a long-term solution for ICT companies. It sits somewhere between equity finance and bank debt, and incorporates preferred equity securities including stock

options and warrants. Although it's secured, Mezzanine debt is normally subordinated to the bank.



Because this form of finance is riskier for lenders, a provider will often seek a high return on their investment, but the request will be lower than that of an equity investor.

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For modern Telecoms and IT companies, Mezzanine debt provides a flexible way for companies to raise capital without having to give up a full equity stake in their business. This is particularly useful if companies require capital for buy-out purposes or an expansion. The solution is frequently used by smaller companies who struggle to access capital through traditional sources.

Importantly, you'll need to make sure that accessing Mezzanine debt doesn't restrict your company's ability to take on future loans. Some lenders will include restrictions in your loan agreement, and your financial advisor will help you to better understand these.

## Equity Financing

Equity investment includes sources of finance coming into the business either to fund development or working capital, or to exit certain shareholders.

The big advantage of equity financing is that the investor takes the risk alongside existing shareholders. If your business fails, you do not have to pay the money back to the investor. You will also have more cash available for growth because there are no loan repayments. Finally, investors take a long-term view and understand that growing a business takes time. This means that you're under less pressure overall.

The downside is large. To gain the funding, you will have to give the investor a percentage of your company. You will have to share your profits and consult with your new partners any time you make decisions affecting the company. The only

way to remove investors is to buy them out, but that will likely take more cash than you were loaned in the first place.

## Bank Debt

Finally, banks are usually the first place an ICT company, or any other business will visit when seeking out capital. However, it's worth noting that there are different ways to borrow from a bank. Whether you're running a temporary overdraft to smooth over problems with your cashflow, or you're taking out a loan, there may be something for everyone.

A major advantage that comes with accessing bank debt is that its available to most companies, provided that you can offer some security in exchange for the loan, and that you have a good plan for business. Once you have agreed upon the amount that can be borrowed, you will be able to get on with the day-to-day management of your business.

There's also a taxation advantage to taking on bank debt, as the payments that you make on your business loan can be considered businesses expenses. This means that your interest rate may be a lot lower than the paper rate for the bank. However, there's also a chance that your company may be faced with higher rates on bank loans, particularly in the case of small businesses with poor credit ratings.

## What's Available to your ICT Business?

The kind of funding that will be available for your ICT business will depend on a range of different factors, including how you plan to use the funds that you access, the size of your business over all, and the level of control that you are willing to concede.

In all circumstances, having a detailed business plan to convince the lender of the sustainability of your company is crucial. The funding environment is extremely positive for ICT businesses at the current time and if you want to understand more, talk to an advisor like [Knight Corporate Finance](#).

## About Knight Corporate Finance

Knight Corporate Finance was founded by Adam Zoldan and Paul Billingham in December 2008 with the specific aim of advising businesses and entrepreneurs in the telecommunications, media and technology (TMT) sector.

Both founders spent long periods of their careers in senior commercial and operational roles in the sector and bring a unique level of experience to transactions based on genuine industry knowledge.

Knight advises its clients on Strategy, Funding, Acquisition and Exit, and has completed over 80 transactions establishing itself as one of the leading corporate finance boutiques in its sector.

The business has a team of 10 professionals with offices in London and Warrington.

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Hi, I'm Rob Scott - Publisher. Fanatical about Unified Comms, Cloud & Contact Centres :)