



Phoenix Business Bank

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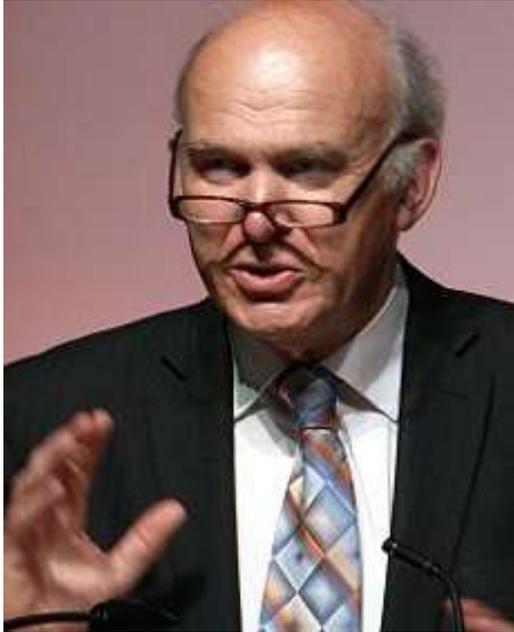
PROJECT
PHOENIX

November 2015

Phoenix Business Bank

Unlocking finance for smaller businesses

Why are we setting up a Phoenix Business Bank?



“We need a new Business Bank with a clean balance sheet and an ability to expand lending rapidly to the manufacturers, exporters and high growth companies that power our economy.”

“We are working to develop a new institution that will combine £1bn of new government capital with a larger private sector contribution. This will apply leverage through guarantees to support up to ten billion pounds of finance to small and mid-sized business”

Vince Cable, UK Secretary of State for Business, Innovation & Skills

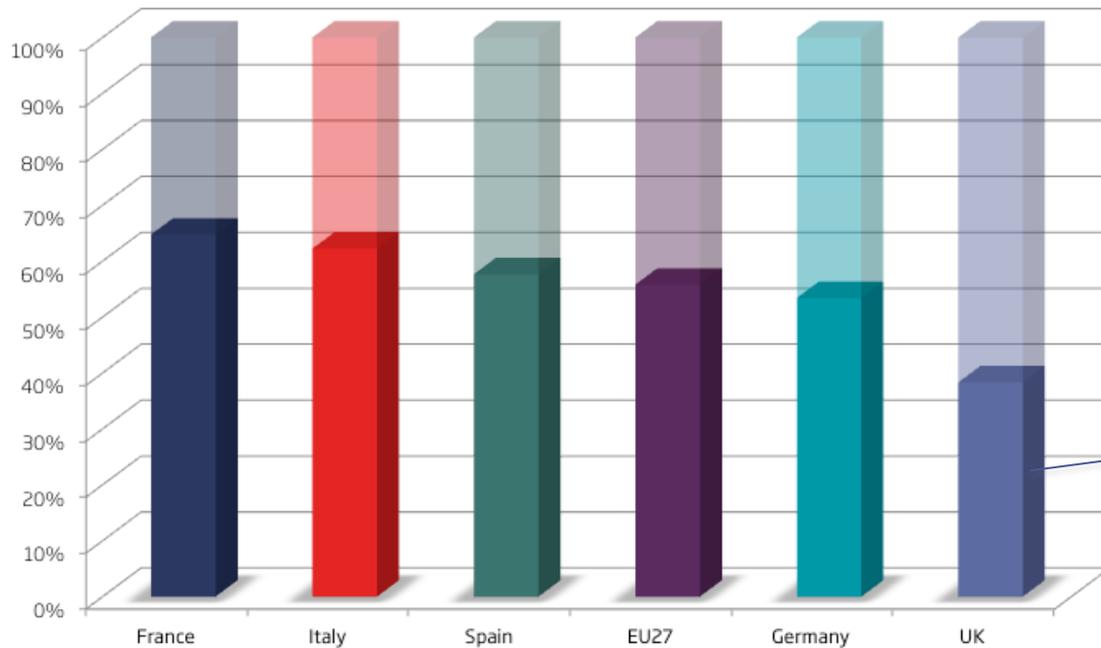


What is the underlying problem?



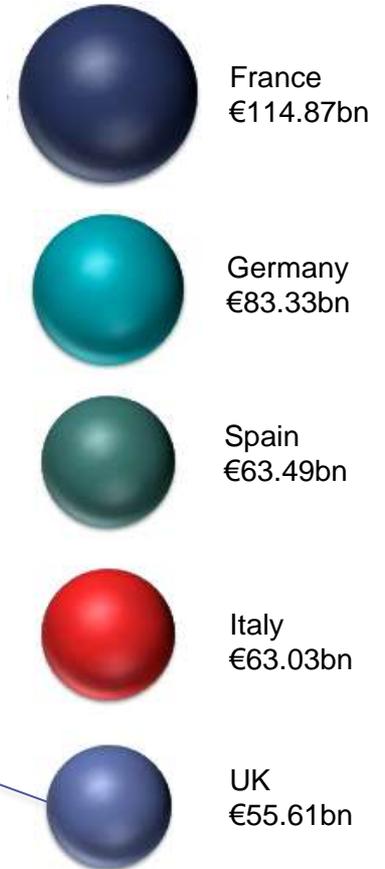
Business investment by UK SMEs is comparatively low

Share of total business investment by company size (2011)



Solid colours indicate percentage of total business investment for companies with <250 employees

Absolute levels of SME business investment (2011)



UK SMEs' share of investment is significantly smaller than in other EU countries...

...and also in absolute terms

Phoenix Business Bank objectives



The Phoenix Business Bank will support economic growth by bringing together public and private sector funds to create more effective and efficient finance markets for small and medium-sized businesses in the UK.

How will we do this?

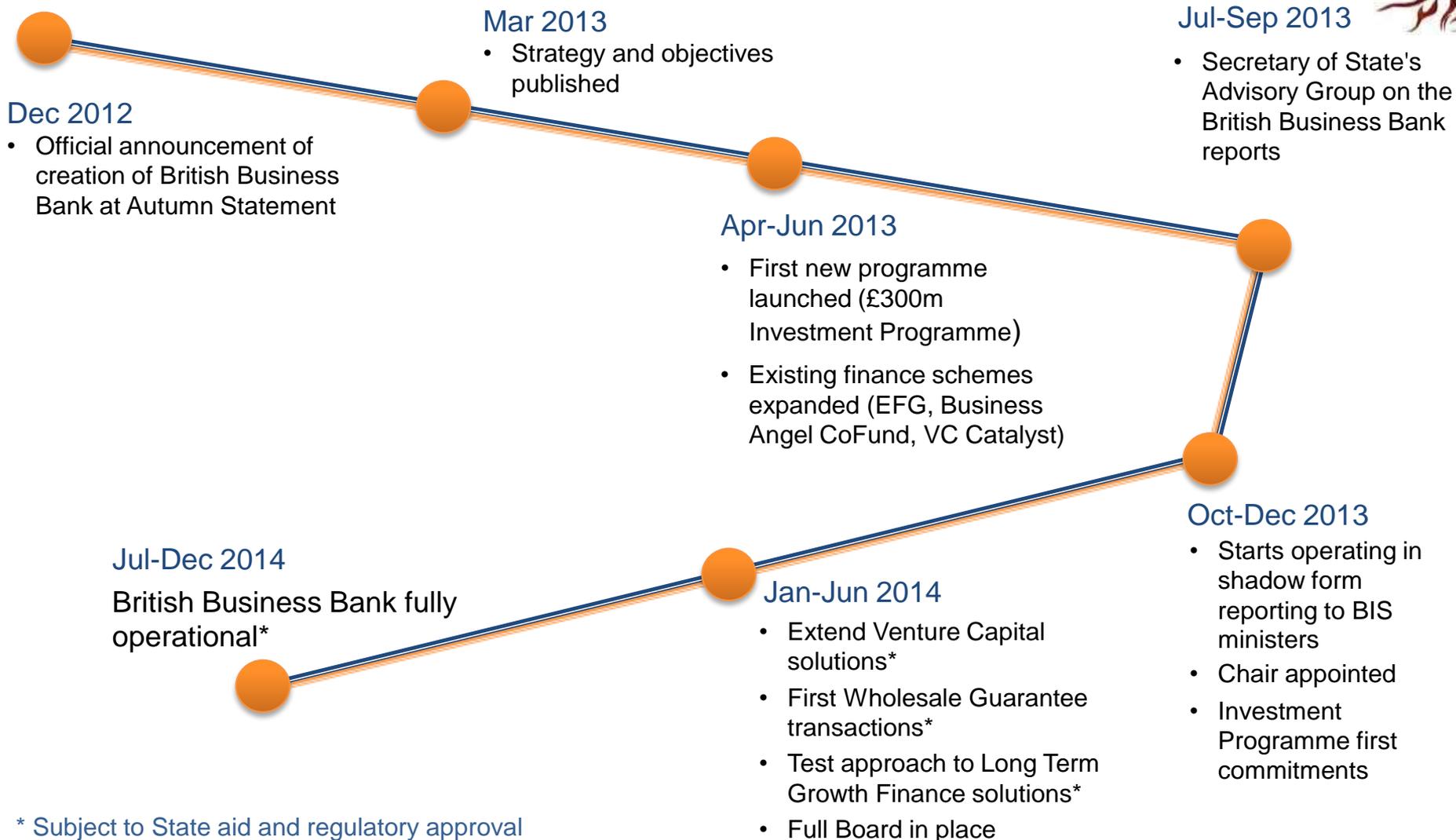
1. Identify imperfections in these markets (such as lack of diversity, supply or awareness)
2. Address such imperfections through design, implementation and management of targeted interventions (such as increased funding, the delivery of information or advice campaigns)
3. Maximise the impact of interventions for taxpayers through the application of commercial expertise
4. Minimise the distortion and any displacement effects in the relevant markets.

Phoenix Business Bank underlying principles



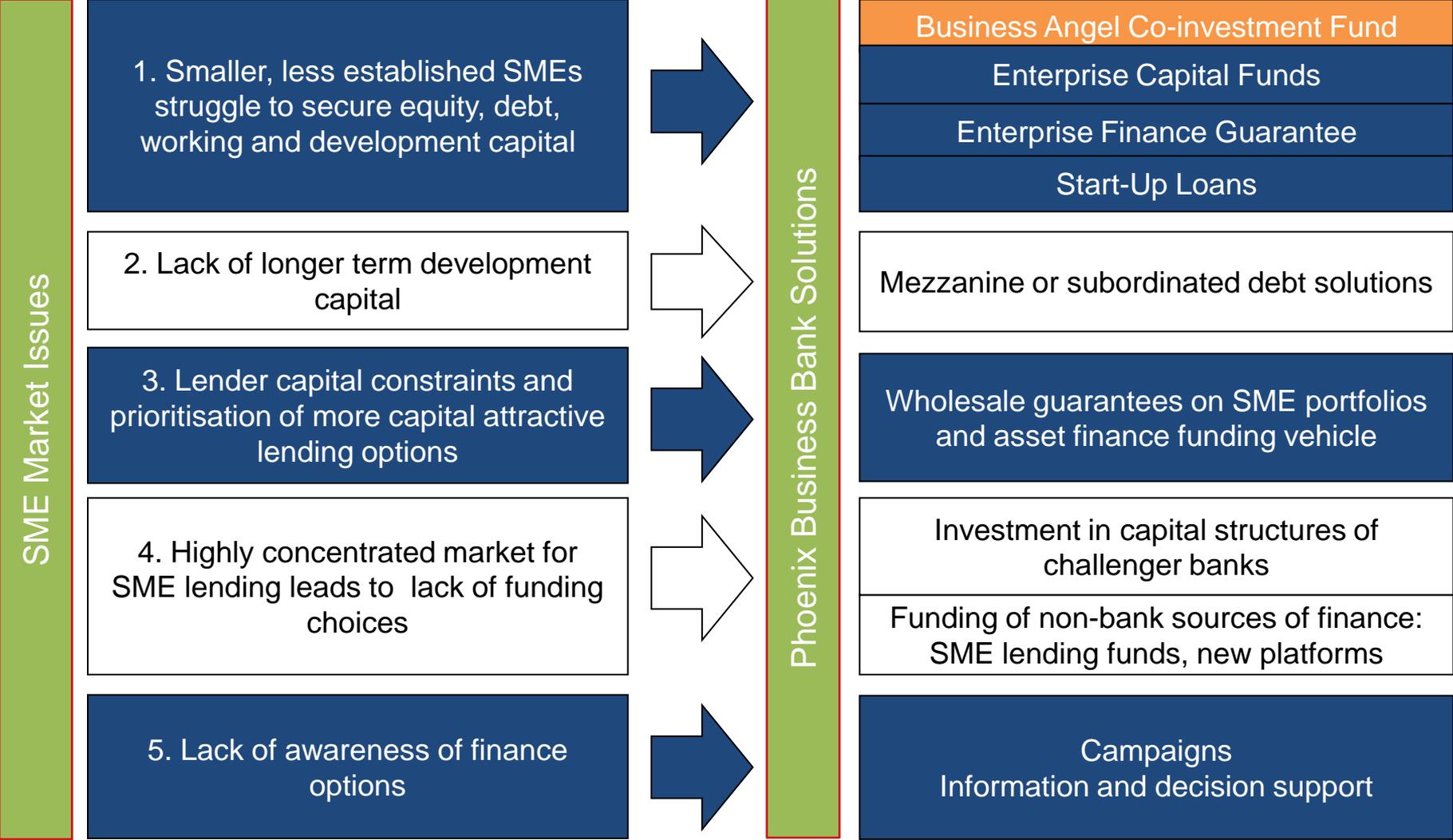
- Works through partners using existing distribution and routes to market
- £2.9bn foundation from existing scheme commitments, together with an extra £1bn of new capital – of which £375m already allocated
 - £250m subsequently reallocated for new smaller business solutions from existing mid-cap scheme*
 - additional £160m for Start-Up Loans*
- Leverages public funds with private sector contributions to catalyse up to £10bn of finance over the next five years
- Commercially-minded, operationally independent arms-length body once EU State aid approved - expected in Autumn 2014.

Phoenix Business Bank timeline



* Subject to State aid and regulatory approval

Addressing issues in the finance market



Venture Capital - Business Angel CoFund



Purpose

Provides equity finance to high growth potential SMEs by co-investing with business angel syndicates.

Performance

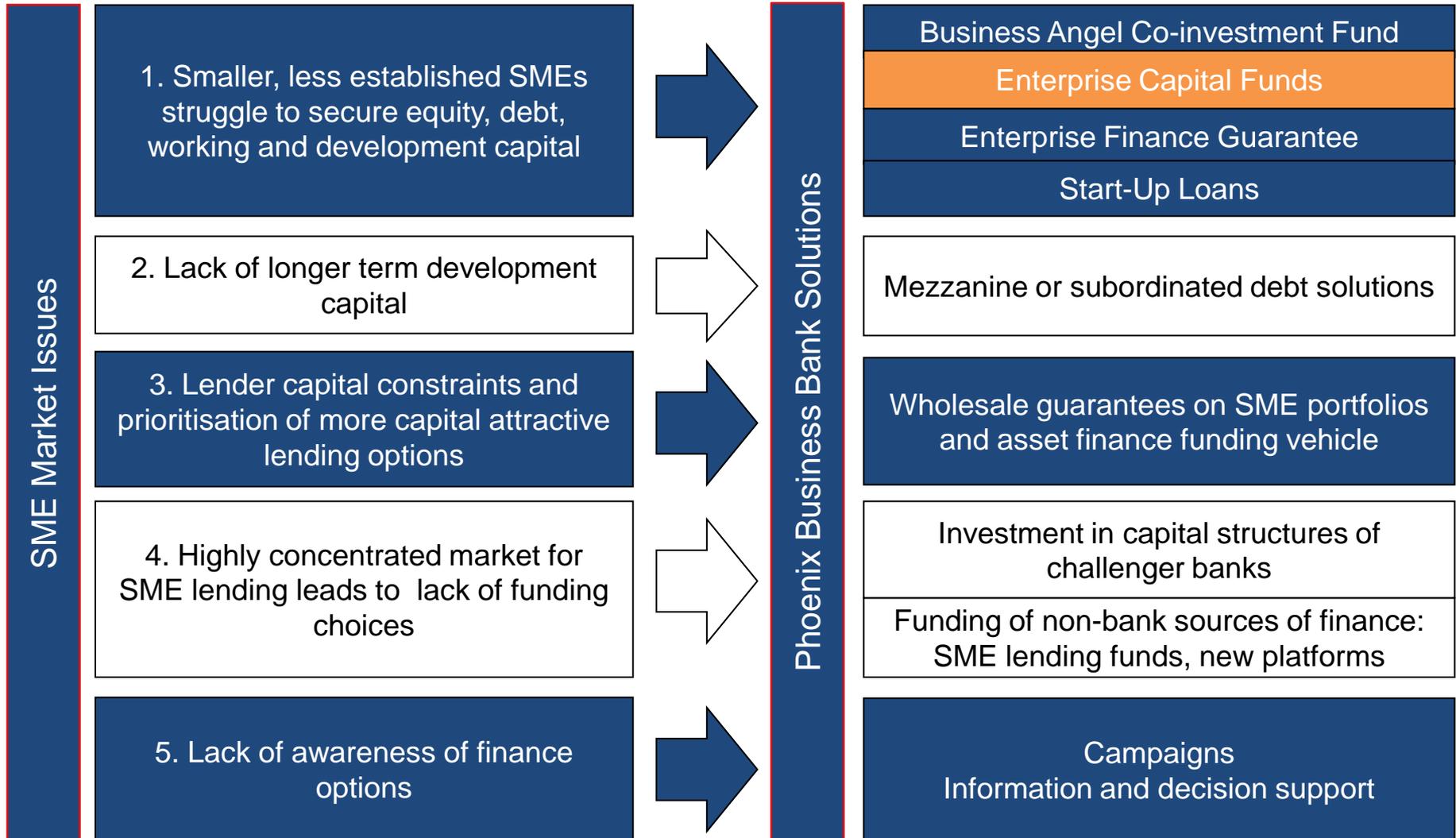
£65m of funds has been invested, of which £14.4m is government funding, into 38 businesses.

Case study – Gousto (London)

- Gousto provides customers with fresh organic ingredients for a wide range of menus, delivered straight to the door to cook at home.
- Customers choose recipes online, and have all the ingredients delivered in the correct proportions, alongside recipe cards and cooking instructions.
- Founded in 2011 it now delivers over 10,000 meals a month.
- Gousto received a combined £250,000 from the Angel CoFund and an angel syndicate.



Addressing issues in the finance market



Venture Capital - Enterprise Capital Funds



Purpose

Provides equity finance to high growth potential SMEs seeking up to £2m investment.

Performance

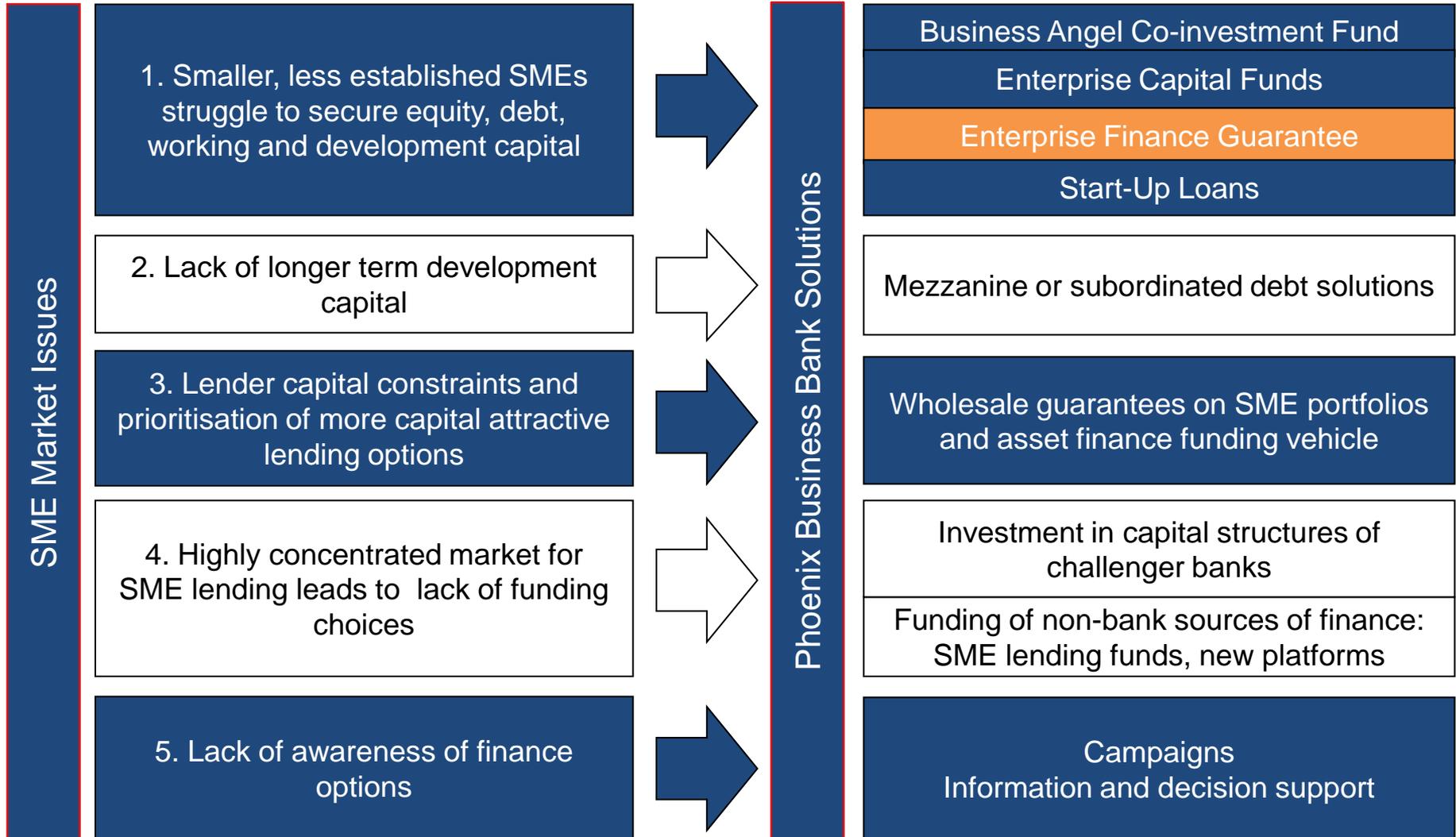
There are now 15 ECFs, invested in funds with total investment capacity of over £500m.

Case study – Sirigen (Hampshire)

- Based in Ringwood, Hampshire and with an office in California, Sirigen has developed technology that improves the diagnostics of clinical tests.
- Enterprise Capital Funds formed the core of Sirigen's £10m initial funding and subsequent follow-on investments
- Funding enabled Sirigen to launch the product and start sales leading to two large commercial contracts
- The company was successfully sold in September 2012 to Becton Dickinson for a significant undisclosed sum, generating up to a 4x return to investors.



Addressing issues in the finance market



Debt solutions – Enterprise Finance



Guarantee

Purpose

Unlocks additional lending to viable SMEs lacking the security or proven track record for a commercial loan.

Performance

To date £90.6m of EFG loans drawn down in Q4 2013, up 33% vs Q4 2012

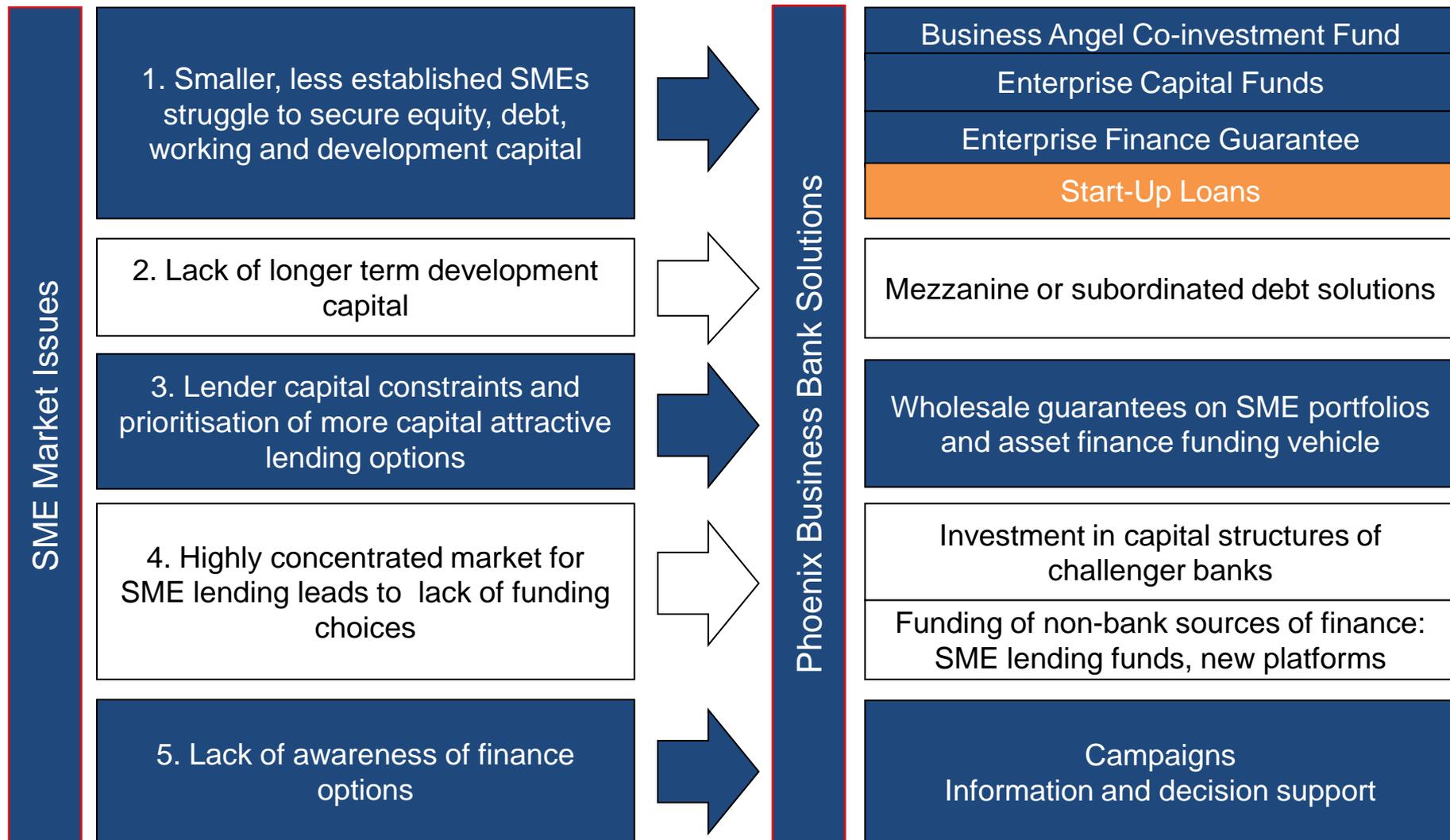
A Trade Credit EFG pilot is now operating through a number of partner organisations.

Case study – Viva Brazil (Cardiff)

- Viva Brazil is a Brazilian-style restaurant using traditional barbeque methods. It opened its first restaurant in Liverpool in September 2010 and the second in Glasgow a year later.
- The expansion of the chain to Cardiff, creating 30 new jobs, was facilitated by a £375k EFG loan from participating lender, Santander Corporate Banking.



Addressing issues in the finance market





Debt solutions – Start-Up Loans

Purpose

Microloans and mentoring for people to start their own business.

Performance

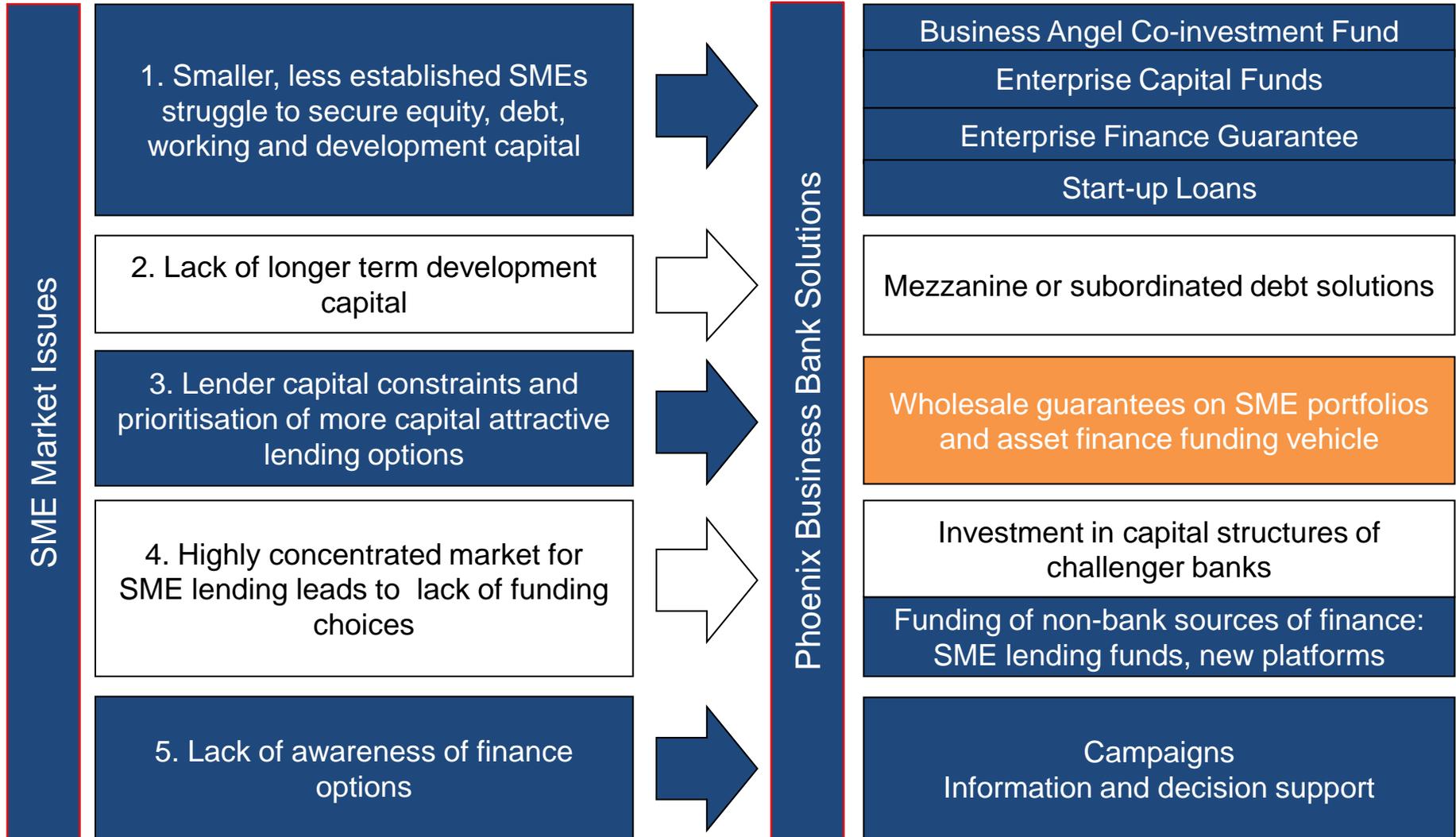
Over 11,000 Start-Up Loans totalling more than £65m have been drawn down since launch in September 2012

Case study – Finch Installations (Swindon)

- Simon Finch was granted a £9,000 Start-Up loan to start his shop fitting business, Finch Installations.
- After 11 years in the construction industry, Simon made the decision to set up his own venture but he needed to secure some funding to enable him to start trading.
- He applied for a loan through Delivery Partner SWIG and the loan monies were in his account within 4 weeks from applying and he was assigned a mentor who has provided invaluable advice.
- He now provides employment for 20 people



Addressing issues in the finance market



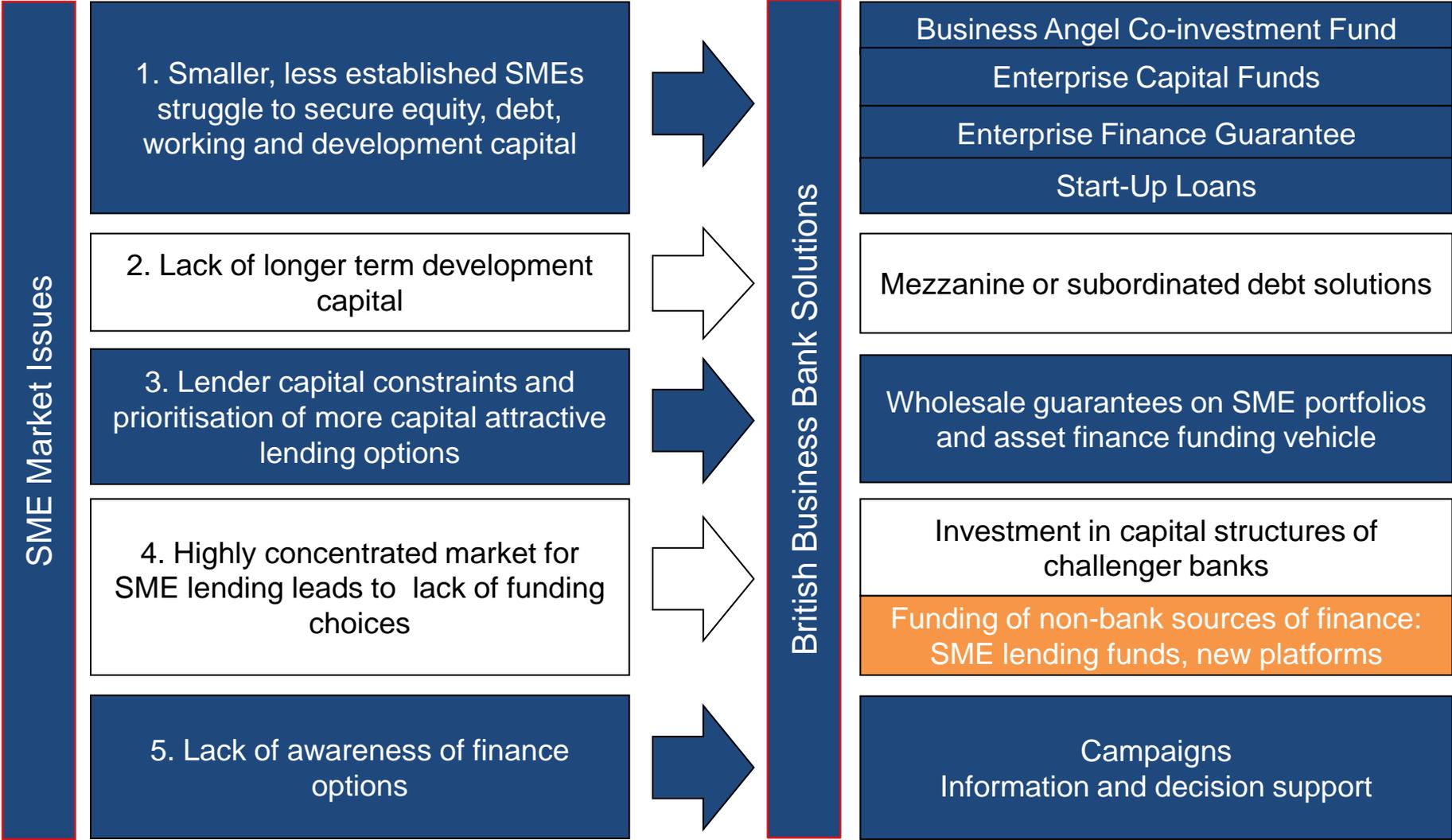
Addressing constraints on smaller business lenders



Wholesale solutions

- There are two main areas which we are tackling through wholesale solutions to unlock funding for smaller businesses:
- Capital – the buffer which banks hold to absorb any losses that might otherwise be a threat to their solvency. There are two aspects of this that cause problems:
 - a general shortage of available capital in the banking system following the financial crisis
 - the amount of money that lenders can make on the capital needed for certain important areas of small business lending is lower than for other types of lending, such as mortgages
- Funding – the money banks actually lend to smaller businesses
 - There is a shortage of funding to smaller asset finance providers, such as non-bank financial institutions and smaller banks. Some of the smaller institutions traditionally relied on financing from their larger counterparts, who have been less willing to fund them since the financial crisis.
- We are continuing to develop solutions in these areas.

Addressing issues in the finance market





Addressing high market concentration

Supporting new lending models for smaller businesses

Purpose

- £100m programme to encourage new lending models supporting smaller businesses
- Second phase of £300m now being committed

Performance

- £89.5m of lending supported in Q4 2013, £8m more than for Q2 & Q3 2013 combined.
- Total of £171m supported since launch in April 2013.

Case study – Bramley & Gage (Somerset)

- Funding Circle, a new peer-to-peer lender, is one of the seven lenders supported by the initial £100m programme
- Bramley and Gage manufacture gin and fruit liqueurs in the west of England and came to Funding Circle to raise a £25k loan.
- 248 people in the UK lent to Bramley and Gage, which will allow them to purchase a new gin still to increase production.



The Phoenix Business Bank is already making a difference



Increase in level of total financing facilitated by our solutions in 2013 relative to 2012

25,000 smaller businesses benefiting from one of our solutions at the end of 2013



£1.5bn stock of total lending and investment at 31 December 2013

New finance reaching smaller businesses as a result of our programmes in 2013



APPROX 75% OF OUR LOANS AND INVESTMENTS ARE FOR £100K OR LESS

