

EQUITY FINANCING FOR EXPANDING COMPANIES

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Pisces Hall, Le Meridien, St Julians

Mr Alan Camilleri – Chairman, Malta Enterprise

The financing needs of the great majority of local enterprises are met by personal funding sources, bank loans or overdrafts. Malta Enterprise also offers various forms of financial assistance which may include soft loans, interest rate subsidies or loan guarantees, tax credits, etc. We have also recently launched the European Regional Development Funds schemes which will allocate Euros 20 million to selected local SMEs over the next 5 years.

However, there are local companies for which these funding sources may not suffice to sustain their ambitious growth plans and internationalization efforts. And there are also other sources of funds within the EU that Malta really should start to tap.

Private equity is medium to long term finance provided in return for an equity stake in potentially high growth unquoted companies. Private equity firms and business angels continue to look for investment opportunities where a business has a proven potential for realistic growth in an expanding market, backed by a well researched and documented business plan and led by an experienced management team. Malta should avail itself of the ample opportunities that remain open to companies within the EU seeking private equity with convincing business proposals.

Obtaining private equity is a very different process to raising debt or a loan from a lender such as a bank. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of your business success or failure. Whilst private equity is invested in exchange for a stake in your company - as shareholders. The investors' returns are therefore dependent on the growth and profitability of your business.

Provided there is a real growth potential, the private equity industry may be interested in any stage:– from company start-up to buy-out.

I also need to emphasise the fact that private equity backed companies are on record to have shown growth rates significantly faster than other companies. This is made possible by the provision of a combination of capital and experienced personal input from the private equity executives, which sets equity funding apart from other forms of finance. Furthermore, the private equity firms will seek to increase the company's value to its owners without getting involved in day-to-day management control. Thus, although you may in the first phase have a "smaller slice of the cake", within a few years that slice should be considerably larger than the whole cake was to you initially.

In this regard, the programme that Malta Enterprise is organising has the overall objective of assisting local companies to access equity finance.

Business angels and equity finance firms do not invest unless fully convinced the company has the right product with a growing market and a competent management team capable of realizing the company's expansions plans. It will be our task to help local SMEs to attract investors – that is to enable them to become "investment ready".

"Investment readiness" may be defined as the capacity of an SME or entrepreneur, that is looking for external finance, to understand the specific needs of investors and to be able to respond to those needs by providing all relevant information and fostering their full confidence in both the project as well as the personnel managing it.

To this effect, therefore, we are launching the Equity Financing Programme to support local businesses with the development of their business proposals and to help with their initial investor search.

To assist us with the programme implementation, we have selected a Danish company with extensive experience in equity financing – InvestorNet – Mermaid Aps. The CEO, Mr. Uffe Bundgaard-Jorgensen has an impressive CV where he continues to be responsible for advisory services for EU entrepreneurs and companies seeking equity financing.

I trust you will make the most of this opportunity and that we can look forward to some of you joining the ranks of equity financed companies with exceptional growth track records.

Thank you .