

FIN(4)FW058
Finance Wales Inquiry
Response from Visionary Consultants Limited

Dear Sirs, as businessman and entrepreneur who has run a number of companies as well as presently helping many SME's through my consultancy business, Visionary Consultants Ltd, and being a member of Xenos, I feel qualified to add value to the Finance Wales debate.

Your View

The Committee would like your view on the following areas:

i The role and strategic purpose of Finance Wales – should it be self-financing by operating on commercial investor principles, or should it primarily support the economic development priorities of the Welsh Government? How do banks operate alongside public bodies such as Finance Wales, and how could this be improved?

In my view – I think FW should operate on a more independent basis primarily focussed on Wales but also seek opportunities outside Wales so enabling it to move towards self-sustainability and reduce dependence on the public purse. Many companies operate throughout the UK. By restricting FW's operations to Wales only restricts the potential of investing in some excellent opportunities which could become inward investments at some stage. To be commercial an organisation should be sensitive to the local marketplace but operate on a national basis and seek scalability. This model will build long term sustainable businesses not dependent on public investment and create a sustainable, viable economy in Wales. Investment criteria must be based on commercial viability and the creation of wealth from which jobs and employment will follow. In my experience FW works well alongside the commercial banks in Wales given the restrictive lending policies most banks are operating at present.

j Current performance – has Finance Wales achieved appropriate outcomes in areas such as jobs created/safeguarded, business support, return on investment, economic impact, associated private sector investment etc.?

To a certain degree FW has contributed to the commercial development of Wales successfully but in some areas can vastly improve its performance namely:

FW serves a vital role in providing finance for the Welsh SME market which if used properly could set Wales at a distinct advantage over English regions who lack a FW type vehicle. The secret to FW future success is to operate effectively. There are areas at present where its weak. FW needs to act more like a venture capital organisation. Apart from Peter Wright there is a lack of Investment Banking experience. Most of the senior managers at FW have come from a banking

orientated background and therefore the organisation operates similar to a UK high Street bank and is risk averse. FW would be far more effective if it brought in the skills and experience of people who have real business experience having run successful companies at the investment evaluation stage or to work alongside the investee and safeguard their investment via expert mentoring. NED's and observers never see the full business picture and cannot influence business strategy. To invest effectively and successfully exit from investments FW needs to understand the needs of its clients and to ensure the financial investment is targeted to these needs. Managers lacking this commercial understanding will fail to effectively assess the risk/reward equation and miss out on potentially high growth businesses. Quite often it's the sales and marketing needs which are missed or misdiagnosed. I believe that the sales function in companies where FW invest is very often underplayed. All businesses need sales otherwise there is no business. Investment tends to be injected initially but what lacks going forwards is the introduction of key performance indicators, a proper Sales and Marketing plan and perhaps as important an exit strategy. FW can learn from angel investors who can bring their experience to bear in young companies but provide the leeway for founders to flourish.

Xenos – Once again could be a far bigger asset. It needs to be able to tap into more people with direct quality business expertise . The additional support which can be bought in from its experienced investor base should be targeted on the evaluation stage of potential investments which is time consuming but critical to creating attractive investible propositions. Xenos is the only organisation of its type in Wales that focuses on funding for the start-up market. The UK Government for example has recently recognised the importance of Business Angels in SME funding and start-ups by introducing effective tax incentives to steer wealth into the early stages of the business cycle.

j Interest rates charged – are these appropriate relative to those charged in the private sector or other sources, and given State Aid requirements? Should interest rates charged by Finance Wales be commensurate with risk?

Quite often SME's turn to FW as a last option perhaps because the High Street banks are not interested in lending (particularly in last few years). Therefore its often high risk investments which command a higher interest rates. In order to get a project off the ground companies are quite prepared to pay these higher levels. However the concentration on providing yet more debt is not always in the interests of the businesses concerned and a move towards more equity and long term funding should be introduced. This would also need the introduction of appropriate equity investment skills not normally associated with high street banking. Welsh government MUST

encourage the greater use of equity and reduce the importance of debt. The 5 year investment term operated by FW can also put unnecessary strain on company resources to repay debt and longer term debt should be encouraged. This is where a detailed understanding of client borrowers needs is paramount rather than the overriding needs and objectives of the lender of the lender. Both need to be in balance if a successful outcome for both is to be achieved.

; Value for money - does Finance Wales provide value for money to the Welsh Government, and how does it compare relative to other forms of public intervention and support?

As I stated in the last point run effectively FW could be a far better resource and asset to the Welsh Government. It is difficult to comment without detailed knowledge of FW accounts and comparison information.

; Arrangements for future sources of finance - what potential forms of finance should be considered by Welsh Government for Finance Wales (including sources such as European funds and the European Investment Bank)?

; The stage 2 report proposes that it would be less confusing for Welsh SMEs if all sources of finance, including UK programmes, were combined. Would it be beneficial to devolve a proportion of UK public support programmes to be administered in Wales?

I believe that a lack of communication to the business community in general surrounds different sources of finance. This could be rectified by an effective communications programme targeted at SME's in particular. The Welsh Government is fortunate to be able to create its own business funding vehicle appropriate to Wales and should not by default follow the UK Governments approach. Organisational independence can be very positive providing the client with a clear understanding of that organisations role and purpose. There is already confusion in England on most of the organisations brought into the Business bank as they lose their independence. In Wales FW serves a specific role, is well known as a brand and as a financial institution needs a level of independence divorced from other business advisory and support services. They need to service the FW group with suitable investment opportunities.

; Corporate structure of Finance Wales - is the current structure fit for purpose and what potential alternative models could be considered?

Please see 'current performance'. Run effectively FW could be highly effective.

On xenos as a wholly owned subsidiary of FW my experience as an investor member of xenos for several years is as follows:

1. There are advantages and disadvantages for xenos being part of FW. It is most important that the xenos Brand is seen as independent from both FW and WG so its role in the business funding cycle is clear to its client base both investors and investee companies. By the same token FW needs to understand that xenos role and activities is different from its own and requires different types of support to achieve its objectives.
2. Xenos can be of huge benefit to FW particularly in the area of poorly performing portfolio companies where its investors can play vital turnaround or strategic business roles. It does this now but more use could be made in future.
3. The role of xenos needs to reflect the importance that the UK government has given to angel investment which is seen very much as a new asset class fuelling the start-up and early stage business sectors if WG is to see this vital part of the Welsh economy expand in future.

; Activities of the Finance Wales Group in the north of England – is this of benefit to the economy and SME businesses of Wales?

I think that operating on a UK basis is of benefit. More opportunities will present themselves, cross marketing opportunities will occur and overheads spread if properly managed. However the Welsh focus must be retained. Building an all UK investment portfolio will undoubtedly strengthen the FW brand and its credibility in the financial marketplace to raise and operate as a successful fund manager.

Kind regards

Andrew

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