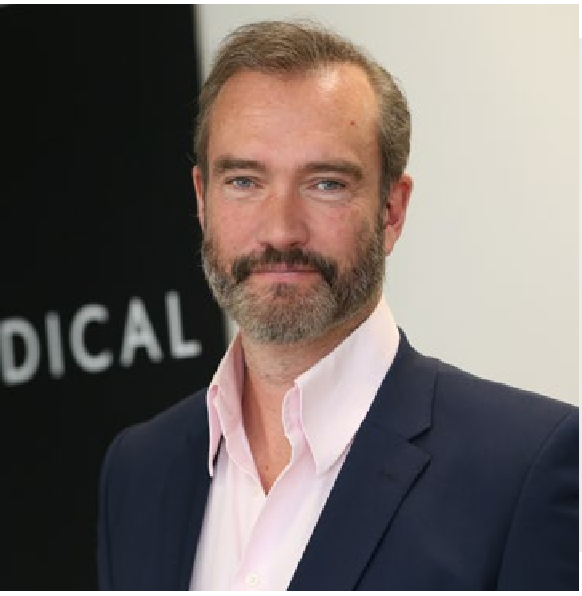
Crowe | Leadership Hub

John Moore speaking at our 2018 Pinnacle Programme on

Funding strategies for SME businesses



John Moore is founder and CEO of 3D4Medical, the world's most successful producer of medical technology apps and platforms. Their software is used in clinical organisations and by medical students and lecturers in top universities across the globe. It has reinvented the way students learn anatomy and lets medical practitioners engage with patients through a truly interactive interface. 3D4Medical also featured in an Apple Keynote speech in 2015 and won an Apple Design Award in 2016.

With over 30 years' experience in founding and leading successful start-up companies, John shared his experience of dealing with the various business and economic shocks he faced, how he reinvented his business after the recession, and his approach to sourcing funding.

Also speaking about funding strategies was Naoise Cosgrove, managing partner with Crowe, who gave an overview of the funding landscape and advice on how to avoid the common pitfalls facing SMEs in applying for funding.

Funding challenges facing SMEs

Loans to the SME sector have halved since 2010. Even with an economy in growth since 2013, there continues to be a fall-off in SME debt. While this may be partly due to companies de-leveraging and restructuring their debt and taking a more cautious approach to debt post-recession, the fact is pillar banks are lending less.

Traditional bank debt is harder to access for a number of reasons outside the control of business owners. A consolidated bank sector with a shrinking branch network and more centralised funding teams means finding the right funding person is just harder. This, together with a more automated decision-making process, more rigid lending criteria and stricter Central Bank guidelines, has meant that accessing traditional funding is more complex than it was 10 years ago.

SMEs need to work harder and prepare better when it comes to applying for funding, and are increasingly turning to more alternative sources.

Practice your pitch

To succeed in any capacity with your business, a great pitch is necessary. "You would be surprised at how many people that I've seen that really don't know how to put across their business idea in a succinct way," confirms John.

To secure funds and get people interested, you need to know exactly how to explain your business in each situation. Potential lenders or investors will focus on the core management team as the primary engine to the business, so it is important to be well-prepared and put your best foot forward.

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Paint the picture for investors

Following on from a great pitch, it is important to help investors or lenders easily understand what the funding is for and how it will be spent.

Naoise Cosgrove explains that funders and lenders have an "extreme" appetite for information. "They want to have lots of data, and if there's a sense that you can't provide it at the application stage, it creates a sense of uncertainty about your ability to manage the business. They want to know what the nuts and bolts of the business are. What are the revenue streams, risk and opportunities related to the business?"

Crowe Managing Partner, Naoise Cosgrove with 3D4Medical CEO, John Moore

Know your market

In addition to explaining your business in depth, you need to show that you recognise potential economic and market factors and have a plan to address them. "Brexit clearly is an obvious focal point for people, for certain businesses the tax landscape can be a critical factor and for others it can be the competitor landscape," Naoise says.

Whatever is happening in the wider environment that could influence your business, Naoise advises not to shy away from it. Instead, impress funders with your knowledge and forethought in tackling the macro factors in your industry.

Prove the business model

John emphasises the importance of being able to demonstrate to investors or funders that your business is viable. "Getting one or two deals over the line to show that it actually works will make your company worth ten times as much. That type of proof will get an investor excited."

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In the early days of looking for funding, John says it became very clear that "even if you had the best idea and the best software in the world, it's really not very useful unless you have a proven business model."

In 1997, after returning from spending time in the US, John set up a software business which created medical training software that used 3D technology, something that was

3D4Medical software has had over 12 million users to date

unheard of at the time. After trying unsuccessfully to raise finance in Ireland, he spent two months in the UK meeting with pharmaceutical companies and seeing if they'd be interested in using the technology to train their sales reps.

After securing deals with Janssen-Cilag and Merck, John arrived back in Dublin and was able to secure investment. "It's actually pretty easy once you can prove the business works, and you can say: 'Look, I can do this without any money. There are a lot of pharmaceutical companies out there, with your investment we could make this a big company.'"

Take your business as far as possible without funding

The further you take your business without funding, the more percentage you will retain. "The more you can prove your business model and find success early on, the less you will have to give away of the business."

In the early days of 3D4Medical, Irish lenders did not understand the software market – their comfort zone was bricks and mortar businesses. As a result, John was forced into self-funding the growth of the business.

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Taking money off the table

In 2015 an opportunity to take the business public on the AIM market arose, which felt like the right move for John and 3D4Medical. However, with papers due to be signed, Malin plc came in at the last minute with an offer to invest in the company.

While an injection of capital from a serious investor was a good prospect for the company, it was also good for John as it gave him the opportunity to realise some of his investment. The Malin deal was structured to allow John to take some money out of the business.

"If you're a mature business that is successful, try to take money off the table," John says. He feels that Irish venture capitalists try to avoid letting founders take some money out of the business and this can be a limiting factor in growth. "The founder is after getting the business to a certain size, but they're starved of money. They know their company is worth something but they're not allowed take money out. They have nothing to show for it.

Don't cover up your failures

"Don't cover up your failures," advises John. Tell people your failures and tell them how you got around them and what you have learned. At the end of the day, the investors are investing more in the people running the business than the business itself. They know that what they are investing in now is likely to morph into a different business in several years.

John suffered an early bump in the road with a previous company, FDS, which had to liquidate. This early failure, he found, created barriers for Irish lenders, who had a tendency to focus on the past failure over the future opportunity being presented to them. US lenders do not view early failures in such a negative light as the assumption is that you learn more from them than you do from success.

John feels that the setbacks and roadblocks he has faced over the years have helped build a stronger business that can pivot or react to changes quicker and easier. These challenges have also helped him build up a resilience as a business leader.

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Make sure the financials stack up

Naoise explains that it is important that the numbers stack up and that the management team are on top of their financial projections. Many applicants fail as they have unrealistic expectations on what they can raise – they end up unable to demonstrate sufficient future cashflow to manage the business and the loan repayments. The loan to value ratio is an important criterion for lenders, and adequate security against the loan may still be sought.

About Us

Established in 1941, Crowe is a leading accountancy and business advisory firm in Ireland. Throughout our 75-year history, we have developed an unrivalled understanding of the Irish business environment and built a national reputation in auditing, tax and business consultancy.

We work with a variety of clients across commercial and public sectors. Our services include Audit & Assurance, Tax, Corporate Insolvency & Recovery, Corporate Finance, Consultancy, and Outsourcing.

We are also independent members of the eighth-largest accountancy network in the world, with colleagues in over 750 offices across 130 countries. Through this global reach we are able to offer clients a seamless service when trading internationally.

Our success is the result of our exceptional client service. Together with our clients, we work to optimise the present and maximise the future, tirelessly exploring all possibilities until we find the right solution. We help clients make smarter decisions today that create lasting value for tomorrow.

Smart decisions. Lasting value.

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