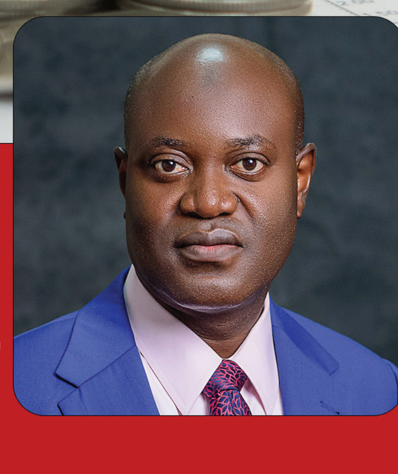
RAISING CAPITAL IN THE FMCG SECTOR:

OVERVIEW OF KEY CONSIDERATIONS

PART ONE



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INTRODUCTION

The Fast-Moving Consumer Goods (FMCG) Sector represents one of the largest sector worldwide comprising companies that supply products that are in constant high demand such as food, beverages, personal hygiene and household items. From a retailing perspective, FMCG is cited as a low margin-high volume game. Within these sub categories, FMCG products are often near-identical and for this reason competition can be intense.

Seeing as profit margins are usually slim, firms operating within this space focus on driving top line sales. To boost profitability, FMCG companies adopt varied strategies to drive product loyalty and in turn improve sales revenue. Given the intense competition and emphasis in growing sales volume, the need for investment in capital assets and maintaining operational liquidity is intrinsic to creating competitive advantages for companies in this sector, hence the importance of expanding into new frontiers and markets cannot be overemphasized.

A corporate entity interested in expanding its business frontiers

The company needs to have figured out its plans and feasibility, spent some time in the market, studying trends and profiles,

and increasing its revenue base has to consider various capital raising options. The key consideration in choosing a source of business finance is to strike a balance between equity and debt to guarantee that

the finance structure suits the corporate entity's business and also to ensure that it continues to thrive as a going concern. Below, we examine the dynamics of raising capital including identifying the right mode, capital and investor type as well as those consideration that are germane to a successful capital raise.

WHEN TO RAISE CAPITAL

While timing is key in raising capital and there is no specific period to commence the process, there are important milestones the Company should set out to achieve. The company needs to have figured out its plans and feasibility, spent some time in the market, studying trends and profiles, undertake and analyse sales and growth projections, and articulate its objectives for raising capital. What is most important to raise funds is to be able to persuade the investors and convince them that the company can optimize resources in such a way that will catalyse actual growth in sales revenue.

OPTIONS AND KEY CONSIDERATIONS

The options available to a company interested in raising finance can be capped under two broad headings which are:

(a) Equity Financing and

(b) Debt Financing.

Equity Financing essentially is raising money through the issuance of either ordinary or preference shares (these could be redeemable or irredeemable) by the company which is then bought by individual investors or institutional investors e.g. Pension Funds, Private Equity Firms, Venture Capitalists etc in return for money and these can be achieved through any of the following platforms e.g. Initial Public Offer (IPO), Rights Issue, Private Placement. This form of financing is attractive for the following reasons

- Increased public awareness of the company because IPOs often

generate publicity by making their products known to a new group of potential customers
- It helps create shareholder value
- Equity capital need not be repaid, unless the company is liquidated and can perpetually use it to grow the business
- Increase in the capitalization of the company.

However, there are certain drawbacks:

- Raising equity finance can be demanding, costly and time consuming.
- Leads to a dilution in shareholding of existing shareholders.
- Depending on the investor profile, equity financing may lead to loss of control.
- Imposition of onerous reporting standards by the company to investors and regulators

Debt financing on the other hand is a process that enables a company to raise finance by direct borrowing from financial institutions or through the issuance of debt instruments. This form of financing could take the form of Bond Issuance, Loan Notes, Convertibles Asset Finance, Loan Syndication, Bills, and Mezzanine Financing. The predominant issue with this form of financing is the issue of security as there is usually recourse to the assets of the company if the company is unable to meet its debt obligations. This form of financing is attractive as business owners can retain maximum control over business without worrying about diluting ownership interest. The interest payments on debt financing are also tax deductible. The lenders/ providers of debt do not share in profit and managerial decisions are shared neither with the creditors nor with debt holders. Raising debt capital has proven to be more economical (except in the case of variable rate loans) as principal and interest obligations are known beforehand hence easily the company plan based on its cashflow.

However, there are certain drawbacks: unlike equity, debt must at some point be repaid. The larger a company's debt-equity ratio, the riskier the company is considered by fresh lenders and investors. Too much debt in a company can erode its value and lead to insolvency.

Debt financing documents also often contain restrictions on the company's activities, thus preventing management from pursuing alternative financing options and non-core business opportunities. The company is usually required to pledge asses of the company as collateral and owners of the company are in some cases required to personally guarantee repayment of the loan.

Conclusion

Irrespective of whatever finance method a company adopts i.e. either debt or equity, the overall contemplation for a business when considering its finance options is to avoid exposing the business to excessive high borrowings but without necessarily diluting its share capital.

It is very important for a company to consider its strategy for capital raising options before deciding on how to finance its activities. Additionally, having the right set of professional advisers generally helps in the capital raising process and removing as much uncertainty or risk for investor or financiers will encourage investment and potentially reduce the cost of capital as a lower perception of risk, commands a lower premium on the capital.

For further information, questions and clarifications, please contact:

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