FIN(4)FW047
Finance Wales Inquiry
Response from Energy Recovery investments

Energy Recovery Investments

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Dear Rhian,

Subject Finance Wales

I am writing to you so that you may use my experiences and interactions with Finance Wales (FW) to support FW going forward in whatever means that may be useful. I have recently read the Access to Finance Review Report published by the Welsh Assembly government.

As you are aware I have been involved in business in Wales for some 30 years as a Director of a number of companies most of which at some time or another have used debt finance or raised equity in Wales or sometimes from institutions based in London.

The first company in which I was involved in South Wales had, as best I remember, a circa £1m equity stake from the venture capital arm of the Welsh Development Agency (WDA). The venture capital arm of WDA was in many ways very similar to FW with its remit to invest in companies in order to build business in Wales and provide jobs. The WDA Venture Capital arm was often the target of criticism and in particular if investments ended badly. However my view is that the WDA did a decent job helping establish local businesses and that there were many successes. However as they were asked to provide funds to back inward investment and stimulate the Welsh economy there were inevitable failures.

During the last 30 years I have had some involvement with the private equity funds operating within Wales. In my opinion, today and historically, it is no coincidence there have only been a handful of such funds operating within Wales and that they are small funds with access to only small amounts of funding. This is because Wales does not have a sufficient number of good investment opportunities, with high returns, to sustain larger equity investment funds in Wales.

My experience over the last 20 years is that the main banks in Wales were, until 2008, very focused on property development and more than willing to support property development as security was easy and the risks easily understood. The banks would also provide support for existing businesses with good tracks records and strong cash flows. The banks have been less willing to support new and start-up businesses and where they have, they have expected individuals to give personal guarantees or provide personal property as security. Where small businesses, for instance such as high street shop owners asked banks for working capital finance they were often invited to take the cash by increasing the size of the mortgage and it was a good way to get people to transfer their mortgages to their bank . This way the banks had the security and effectively they did no due diligence on the business. In my opinion this is a shame because before increasing the mortgage became the easy route, the bank's investment managers provided useful advice to people as they were a sounding board for the likely success of the venture. Many businesses, doomed to failure, would in the old days have been refused money by old style bank managers.

As you know in 2008 we were looking for finance to commence an environmentally beneficial project in South Wales. We needed investment capital which essentially we were seeking as loans, as the pay back was likely to be quick (2 to 3 years). For a period we sought these funds from banks but funds were not forthcoming on terms we could accept, i.e. they wanted total personal guarantees/security and where finance could have been available, we were expected to accept financial instruments that we could not properly understand/predict the outcome of and so we eventually turned to equity funds and in particular FW.

Having bought many companies over the years the first thing that impressed me was the quality of the due diligence carried out by FW which was very good. I have not seen this quality of due diligence from banks in South Wales. FW management quickly grasped the type of investment that we were proposing and were also easily capable of dealing with the legal complexities of a slightly complicated transaction. This quality of due diligence I had only ever previously seen when conducting business with the large city funds such as 3i's and Elecktra.

FW made loans to my company for £300,000 which was duly repaid, not as perfectly planned but within a few months of the predicted timeframe. FW's management were with us the whole of the way and I am very grateful for the help of FW and their management as the venture proved to be a great success. The interest rate (15%) was fair and reflected the risk and lack of personal guarantees.

I am very aware that FW is scrutinised for its performance as a venture capital fund and yet at the same time expected to provide finance to stimulate businesses in Wales. I know that there has previously been talk of the venture capital side of FW being privatised or its remit altered, but I think that would inevitably lead to much fewer businesses being supported in Wales and if sold, a migration of FW away from South Wales to potentially richer investments elsewhere.

I believe it is unreasonable to expect that there will not be a good number of investment failures and write offs within FW when conducting investment in the manner it is expected to do. If the FW structure was to be sold or its investment criteria changed I suspect that in a few years an FW equivalent will be started again in another period of government, as FW's role is, in my opinion, much needed and valued by the business community in Wales.

Yours sincerely

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S G Williams

Director