ADDRESSING THE “RISK OFF” INVESTMENT CHALLENGE

RICHARD ANGUS

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A challenging environment for UK companies

As we approach mid-2025, life remains challenging for many UK companies and their shareholders, and – as a broad generalisation – consensus suggests little will change in the foreseeable future.

So, are we now facing a real risk of the UK economy stagnating due to lack of funding? If that is the case, who is going to take the initiative and avert such a crisis?

Business life must continue, despite the macro environment providing limited visibility and the distractions of political tensions taking centre stage on a regular basis. This is hardly a background for inspiring confidence. Those of a more optimistic persuasion may point out that the UK stock market indices show signs of stability and the US indices have almost recovered their initial 2025 losses. However, feedback from the UK private company sector raises broader concerns, and this will be the focus or the rest of this article.

Paucity of funding needs to be approached effectively

Despite the ambitious determination of the UK’s entrepreneurial talent, most emerging companies are reliant on external funding – at least until they reach a point of having better control of their destiny. The UK, rightly, has gained a reputation for its depth of such talent and initiative; it remains critical to our future that we encourage these businesses to pursue their ambitions. Sometimes, however, the timing is challenging. Running a business can feel like the world is against you – which is how the management of many private companies feel right now. It may also not be surprising that many owners of established private businesses are asking “what is the point of carrying on for the next five years?” If we are in danger of losing economic momentum, this issue needs to be recognised and addressed. Importantly, are companies addressing these funding challenges in the most effective manner?

Let’s examine this in more depth:

Right now, many ambitious entrepreneurs are complaining that they cannot find investors. In more optimistic “blue-sky” times, funding for both public and private growth companies is often not an issue. Indeed, for example, public offerings may be oversubscribed, and investor participation requires an immediate decision – and only a limited amount of knowledge. In short, this investor attitude reflects a “**RISK ON**” (investors are willing to take on higher-risk investment in pursuit of greater returns) world where – rightly or wrongly – optimism reigns supreme and the failure to participate means passing up on an opportunity to make “easy money”.

Today, the situation could not be more different. From an investor perspective, we are in a “**RISK OFF**” (investors are pessimistic or uncertain, preferring to seek safety in lower-risk investments) environment, and it may be far easier and less risky to do absolutely nothing while waiting for the outlook to improve and/or opportunities to provide better value. Unlike in times of optimism and high investor confidence, today’s investors are reluctant to commit new capital, especially as many are suffering disappointment with existing holdings. It is imperative, therefore, that entrepreneurs understand the need to ensure that dialogue with the buy-side recognises the reality of the situation.

From the corporate viewpoint, management's key focus is on running the business. *However, it is also critically important for management to appreciate expectations of shareholders and prospective investors.* As highlighted already, in times of economic expansion and growing profits, this may not be too challenging. Today, the boot is on the other foot – and it is imperative to retain shareholder confidence as well as to broaden investor support.

Companies need to be in sync with their shareholders

So, a crucial question for owners and directors is: "*Are you in sync with your shareholders?*" You should be, but evidence might suggest to the contrary. Also, do not forgot they are the owners of the business!

This question highlights the material dislocation that can exist between the needs of investors – be they existing shareholders or potential new sources of capital – and corporates.

In a November 2024 article, we addressed the growing issue of ROOM Risk – the potentially disastrous consequences of "running out of money". This problem has not gone away; "cash is king".

However, here are three broader questions related to investor communications:

1. *Are your shareholders and prospective investors receiving the information they need?*

- It goes without saying, all such communication must be clear and follow regulatory requirements. However, do your presentations meet the requirements of the audience in terms of supplying information that is required to raise capital? If, as a Board, you believe that supplying more and more fundamental information is the route to goal, then you might think again. Many investors, after all, primarily want to assess risk/reward rather than "know more". They want to be able to understand the key risks and challenges as well as opportunities. At the risk of stating the obvious, investors want to make money not run the company. Today, besides analysing the P&L, there is an increasing focus on the Balance Sheet.

2. *Do you believe your shareholders trust you to achieve the goals you have laid out?*

- Investing is often about confidence in personnel as well as appreciating opportunities. With private businesses, there is little or no opportunity for investors to trade out of positions. If shareholders believe in management and feel, in return, that their expectations are understood, then a strong and constructive relationship may mean that shareholders can support management in additional ways to providing capital.

3. *Are you confident that your current valuation is realistic?*

- Fair value assessments, by their nature, are open to subjective opinions. While there are established valuation guidelines, there are no "right answers". The only proof is that when a transaction occurs between informed and experienced parties, the price reflects the market. Many Boards may believe that, as they know their business better than anyone else, their valuation opinion is "right". They may also be concerned that raising new equity at a depressed valuation will upset existing shareholders. This, however, is not an attitude that reflects the real world, and the failure to raise capital by ignoring what investors would be prepared to pay can have disastrous consequences. Obtaining an independent valuation is to be encouraged and will improve directors' understanding of how to progress their business.

Conclusion

In conclusion, it is imperative that Boards understand *and accept* the fundraising pressures in a "**RISK OFF**" world. There is often funding available for appropriate situations *at a price*, but corporates must understand the needs of their investors in order to obtain the funding they require.

Of course, markets and economies all demonstrate cyclical elements, which are largely beyond the control of participants. However, when sentiment changes, and confidence begins to increase, the "**RISK ON**" world will re-emerge. While the timing of this change in attitude is not possible to predict, it is often "darkest before dawn" – and right now it is looking fairly dark. It is not time to give up hope but rather to find effective financial solutions to keep our entrepreneurial spirit alive.

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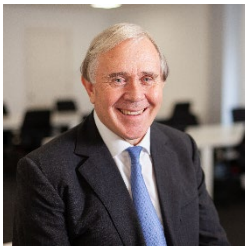
Contact details

If you would like more information, please contact:

Richard Angus ra@hardmanandco.com

Anneli Köss ak@hardmanandco.com

About the author



Richard Angus is the Head of Business Development at Hardman & Co.

He has more than 30 years of City experience. His primary area of focus has been US equity capital markets, and he has been involved predominantly in the development of growth companies. Richard has experience on both the buy and sell sides. Having worked for M&G as a fund manager, Richard then worked for US investment banks Alex Brown & Sons and Furman Selz. Latterly, Richard was Managing Director and Head of Institutional Sales for Europe at FBR & Co. Besides being involved in many public flotations, Richard's experience includes pre-IPO capital raises.

Richard joined Hardman & Co in September 2014. He holds a BA (Hons) in Economics from the University of Liverpool and is a Chartered Accountant.

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research@hardmanandco.com

9 Bonhill Street
London
EC2A 4DJ

www.hardmanandco.com