

The Business Finance Guide



Bonds

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A bond is essentially an IOU that a business provides to an investor.

A simple way to think of a bond is that you have a commitment to an investor to pay what's called a coupon for example 5%, and you will pay that over the duration of the bond. So if you received say a £10,000 bond at a 5% coupon, you would have a commitment to pay £500 per year for 10 years, and the full amount of £10,000 at the end of 10 years. So this can be quite attractive to some businesses because you're paying the interest as you go along, but you are only repaying the capital much later – in this example 10 years later. So this gives the business quite a long time to build up the reserves to repay the capital.

A brand can be very useful if you are doing a bond issue. Members of the public are more likely to provide finance if they are familiar with the brand, though it's not essential.

I would say you would need in general to be looking to raise at least £500,000, but there have been recent cases of businesses raising a very sizeable amount through a bond issue.

For example, in recent years, Hotel Chocolat raised £4m on the bond market.

In summary, you would need to be not very small business, but one that would be able to support borrowings of this size. It is certainly an attractive option for some.