



**FINANCING SMALL AND MEDIUM SIZE
ENTERPRISES – CASE STUDY MML-
RESOURCES LTD.**

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Abstract

MML-Resources Ltd. is developing their business and a part of the development requires capital. The aim of the thesis is to find the most suitable capital provider for the company's needs.

Earlier knowledge for the research has been required during the writer studies in TAMK and working in the target company as chairman of the board and CEO.

Working method for this thesis has been information retrieval from the Internet and several capital providers, by meetings, asking offers and telephone negotiations.

Because of the critical nature of information to target company's operations and competition ability, some of the sources are classified.

Main findings from this research are that there is not many capital sources offering capital to small and medium size enterprises during these times. In addition existing personal contacts are important when acquiring capital to the target company.

This research offers limited information on the subject, because of the limitations set by the size of the target company and the business field it operates in. For this reason more extensive research on the matter should be done by an outside source.

Key words: Financing SME MML-Resources
Capital

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1. INTRODUCTION

MML-Resources Ltd. was established in year 2007 as a company that provides human resource services. In summer 2009 the company started to do research on possibilities to import tools and material needed in companies operating in railway building and maintenance. By year 2010 it had made several connections to suppliers and started its operation in the business field.

MML-Resources Ltd states following of its Mission: 'MML-Resources Ltd offers a large variety of high quality products and services for the infrastructure building-, construction-, harbor-, and shipyard industries. Customers find fulfillment for their different needs from one place.' (MML-Resources Ltd, 2011)

1.1 Goal of the thesis

During the research and start phase of the new operations the company noticed that its own capital resources were not sufficient enough and the need for capital was calculated. The required amount was 40 000€ as a loan or overdraft credit account to secure company's cash flow. (MML-Resources - Financial Plan, 2010) The meaning of this thesis is to find the most suitable sources of capital for the target company.

1.2 Research problems

Research problems are related to finding the most suitable financing sources for the company's needs. The major problems are finding as many as possible of the available sources and comparing the cost of capital and other obligations brought by the capital providers, such as public sources, private investor, venture capitalists and banks. All these sources have their own profile when providing capital to entities and when combined, the best source or source combination for financing small and medium size enterprise is not obvious.

2. TERMINOLOGY

2.1 SME and SMB – Small and medium size enterprises and businesses

SME's and SMB's are enterprises/businesses whose headcount or turnover falls under certain level. In Finland the headcount limit is 250 employees and turnover falls under 50M€ and balance sheet shows maximum of 43M€. (Tilastokeskus, 2011)

2.2 Income statement

Income statement is a statement of company's revenue in certain period of time. It states all the income and expenses of the company during the time and is also known as profit and loss statement. (Wikipedia, 2011) Figure 1 below is a sample of an income statement.

	2011								
Revenue	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Sales revenue	19 340	19 340	28 510	28 510	38 680	38 680	48 850	48 850	50 850
(Less sales returns and allowances)									
Service revenue									
Interest revenue									
Other revenue									
Total Revenues	19 340	19 340	28 510	28 510	38 680	38 680	48 850	48 850	50 850
Expenses									
Cost of goods sold	15 710	15 710	23 240	23 240	31 420	31 420	39 600	39 600	40 900
Salaries	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000
Social costs 70 % of salaries	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400
Employee benefits									
Marketing	-	-	1 000	-	-	-	2 000	-	-
Advertising	-	-	1 000	-	-	-	1 000	-	-
rent	-	-	-	-	-	-	-	-	-
Travelling	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000
Electricity & water	-	-	-	-	-	-	-	-	-
Car									
Utilities									
Office supplies	200	200	200	200	200	200	200	200	200
Telephone	200	200	200	200	200	200	200	200	200
Bookkeeping & auditors	200	950	1 200	200	200	200	200	200	200
Depreciations	-	-	-	-	-	-	-	-	-
IT equipment & Software									
Insurance	200	200	200	200	200	200	200	200	200
Interest expenses	70	70	70	70	70	70	70	70	70
Loan payment	333	333	333	333	333	333	333	333	333
Other									
Total Expenses	20 980	21 730	31 510	28 510	36 690	36 690	47 870	44 870	46 170
Net Income Before Taxes	(1 640)	(2 390)	(3 000)	0	1 990	1 990	980	3 980	4 680
Income tax expense 26%	-	-	-	0	517	517	255	1 035	1 217
Income from Continuing Operations	(1 640)	(2 390)	(3 000)	0	1 473	1 473	725	2 945	3 463
Below-the-Line Items									
Income from discontinued operations									
Effect of accounting changes									
Extraordinary items									
Net Income	(1 640)	(2 390)	(3 000)	0	1 473	1 473	725	2 945	3 463
Net Income, YTD	(1 640)	(4 030)	(7 030)	(7 029)	(5 557)	(4 084)	(3 359)	(413)	3 050

Figure 1: Sample Income Statement

2.3 Balance sheet

Balance sheet is a statement of entity's liabilities and assets in one point of time. In the liabilities side of a balance sheet there are liabilities and equity and in the assets side of a balance sheet there are liquid and non-liquid assets of the company. (Wikipedia, 2011) Figure 2 below shows a sample of a Balance Sheet.

MML-Resources Ltd. - Forecast Balance sheet

Assets	BB 2011	2011								
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Current Assets										
Cash	50 000	50 733	48 329	45 175	41 411	40 155	40 889	41 886	41 092	43 117
Accounts receivable (30 days net)		19 340	19 340	28 510	28 510	38 680	38 680	48 850	48 850	50 850
Inventory										
Prepaid expenses										
Short-term investments										
Total current assets	50 000	70 073	67 669	73 685	69 921	78 835	79 569	90 736	89 942	93 967
Fixed (Long-Term) Assets										
Long-term investments										
Property, plant, and equipment (Less accumulated depreciation)		-	-	-	-	-	-	-	-	-
Intangible assets										
Total fixed assets	-	-	-	-	-	-	-	-	-	-
Other Assets										
Deferred income tax										
Other										
Total Other Assets	-	-	-	-	-	-	-	-	-	-
Total Assets	50 000	70 073	67 669	73 685	69 921	78 835	79 569	90 736	89 942	93 967
Liabilities and Owner's Equity										
Current Liabilities										
Accounts payable		21 077	21 827	31 607	28 607	36 787	36 787	47 967	44 967	46 267
Short-term loans										
Income taxes payable										
Accrued salaries and wages		1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400
Unearned revenue										
Current portion of long-term debt										
Total current liabilities	-	22 477	23 227	33 007	30 007	38 187	38 187	49 367	46 367	47 667
Long-Term Liabilities										
Long-term debt	40 000	39 333	38 667	38 000	37 333	36 667	36 000	35 333	34 667	34 000
Deferred income tax										
Other										
Total long-term liabilities	40 000	39 333	38 667	38 000	37 333	36 667	36 000	35 333	34 667	34 000
Owner's Equity										
Owner's investment	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000
Net profit		(1 737)	(4 225)	(7 322)	(7 419)	(6 019)	(4 618)	(3 965)	(1 092)	2 299
Retained earnings										
Total owner's equity	10 000	8 263	5 775	2 678	2 581	3 981	5 382	6 035	8 908	12 299
Total Liabilities and Owner's Equity	50 000	70 073	67 669	73 685	69 921	78 835	79 569	90 736	89 942	93 967
Common Financial Ratios										
Debt Ratio (Total Liabilities / Total Assets)	0,80	0,88	0,91	0,96	0,96	0,95	0,93	0,93	0,90	0,87
Current Ratio (Current Assets / Current Liabilities)		3,12	2,91	2,23	2,33	2,06	2,08	1,84	1,94	1,97
Working Capital (Current Assets - Current Liabilities)	50 000	47 596	44 442	40 678	39 914	40 648	41 382	41 368	43 575	46 299
Assets-to-Equity Ratio (Total Assets / Owner's Equity)	5,00	8,48	11,72	27,52	27,09	19,80	14,78	15,03	10,10	7,64
Debt-to-Equity Ratio (Total Liabilities / Owner's Equity)	4,00	7,48	10,72	26,52	26,09	18,80	13,78	14,03	9,10	6,64

Figure 2: Sample Balance Sheet

2.4 Financial Statements Definitions

Weighted average cost of capital (WACC)

Weighted average cost of capital is a method to calculate combinations of different financing sources. It calculates the average cost of capital by weighting each sources capital cost by its percentage of the total amount of capital. In common words, it is the average interest rate of all liabilities (such as debts and owners equity) inside an entity.

Equation 1 below is used for calculating the WACC:

$$\text{WACC} = \sum_{i=1}^N \left(r_i \cdot \frac{MV_i}{\sum_{j=1}^N MV_j} \right)$$

Equation 1: Calculating WACC

N = number of sources of capital (securities, types of liabilities)

r = is the required rate of return for security i

MV_i = is the market value of all outstanding securities i . (Wikipedia, Weighted average cost of capital, 2010)

Equity

Financial equity is the risk capital invested in an entity by shareholders. Equity is also known as shareholders' equity, and stockholders' equity. In accounting it is calculated by subtracting liabilities from assets. (Wikipedia)

Liability

Financial liabilities are the obligations that an entity has. They can be loans, account payables, etc. In accounting liabilities are calculated by subtracting equity from assets. (Wikipedia)

Assets

Financial assets are the resources of an entity. They can be cash, account receivables, inventories, etc. In accounting assets are calculated by adding equity and liabilities.

(Wikipedia)

Interest

Interest is a fee paid for the capital provided by a creditor. Equation 2 below is a simple formula for calculating the interest rate:

$$I_{simp} = (r \cdot B_0) \cdot m$$

Equation 2: Interest Rate

r = the period interest rate (I/m),

B_0 = the initial balance

m = the number of time periods elapsed. (Wikipedia, Interest, 2010)

Cost of capital

The cost of capital is a measurement method for measuring the capital costs for a company. It is usually divided to cost of debt and cost of equity. (Wikipedia, Cost of capital, 2010)

Cost of debt

Cost of debt means the cost of capital provided by outside creditors. Cost of debt usually does not include any risk-weighted calculations from the debtors' side and can be calculated only by creditors interest rates. These are the interest expenses in the income statement. (Wikipedia, Cost of capital, 2010)

Cost of equity

Cost of equity means the cost of capital provided by investors. For this capital the investors require return according the evaluated risks the investment holds. (Wikipedia, Cost of capital, 2010)

APR

APR (Annual percentage rate) shows the real annual percentage interest rate of the capital, including fees, expenses, etc bind to the capital. (Wikipedia, 2011)

2.5 Ratios from Balance sheet

Debt ratio

Debt ratio is a ratio of debts and assets in a balance sheet. It is used to evaluate the amount of debt to assets of the entity. If debt ratio is more than 1 it shows that the entity has more debts than assets and if it is less than 1 it shows that the entity has more assets than debts. (Investopedia, 2010) Equation 3 shows the formula for calculating the debt ratio.

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Equation 3: Debt Ratio

Current ratio

Current ratio is a ratio of current assets and current liabilities in a balance sheet. It is used to evaluate the entity's ability to handle its short-term loans. If current ratio is more than 1 it shows that the company would be able to pay its liabilities, if they were due at that point. If it is under 1 it shows that the company would not be able to handle its liabilities if they were due at that point of time. (Investopedia, 2010) Equation 4 shows the Formula for calculating current ratio.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Equation 4: Current Ratio

Working capital

Working capital measures the amount of current assets compared to current liabilities of a balance sheet. This ratio is also used to measure the entity's short-term financial health. If the working capital amount is negative, the entity would not be able to pay its current liabilities, if they were due at that point of time. And if it is positive, company possesses more current assets than liabilities and would be able to take care of its current liabilities, if they were due at that point of time.

This figure shows the actual monetary value of capital and so gives value information of the entity's status, unlike ratios, which shows rate figures. (Investopedia, 2010)

Equation 5 shows the formula for working capital.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Equation 5: Working capital

Assets to equity ratio

Assets to equity ratio is a ratio that compares the entity's total assets to its owner's equity. This ratio is used to evaluate the financing level of the company: how much is financed through debts and how much from owner's investments. (Wall street survivor, 2009) Equation 5 shows the formula for calculating the assets to equity ratio.

$$\text{Assets to equity ratio} = \frac{\text{Total Assets}}{\text{Owner's equity}}$$

Equation 6: Assets to Equity ratio

Debt to equity ratio

Debt to equity ratio is a ratio of total liabilities to shareholders equity. This ratio is used to measure financing methods. If the value is over 1 it means that the entity's capital is required more through debts than owner's investments and if it is below 1 it shows that owners' investments are preferred as financing method. Equation 7 shows the formula for calculating the debt to equity ratio.

$$= \frac{\text{Total Liabilities}}{\text{Shareholders Equity}}$$

Equation 7: Debt to Equity Ratio

3. FINANCING FOR A SME

3.1 Private investors

Cost of capital provided by private investors can be measured by the return expectations and the risk evaluation made by the capital provider. Usually outside investors and lenders expect the entrepreneurs to invest to their business before they are willing to provide their capital to the company. (Vilen, 2010)

Private investors offer loan (debt) or equity (investment).

Personal savings

Personal savings means the equity provided by the entrepreneurs in the company. Capital provided by the entrepreneurs is usually added to company's equity, because rarely an entrepreneur loans money for his/her own company. (Vilen, 2010)

Friends and family

Friends and family are also one possible source of capital for the company (goes into the private investor category). This source provider can add capital to the company's equity, by investing in the company or to the debt, by lending money to the company. If this capital provider invests in the company's equity, it usually also brings more obligations to the company. (Vilen, 2010)

Business Angels

Business angels are usually outside capital providers who might already have good business contacts and experience. This usually means that a business angel wants to invest capital in company's equity, which brings the capital provider into company's decision making and so brings more obligations and possibilities to the company.

Business angels can be found through several different networks. (Vilen, 2010)

Business angels offer mainly equity (investment) or in some cases loans (debt).

Venture capitalists

Venture capital is usually provided by corporations and they are mainly investing in the company's equity. Venture capitalists usually bring their networks and management support to the company and so add the company's value.

Venture capitalists usually have extremely high expectations and less than 1% of the business plans are accepted. (Vilen, 2010)

3.2 Banks

Banks usually provide capital for debt to the companies. They also usually require collaterals from the company and so outside guarantees are usually required.

Banks' cost of capital is easily calculated through interest rates. (Vilen, 2010)

3.3 Public sources

Public sources offer loan guarantees, aid and start-up consultation. In Finland there are few public sources such as Finnvera, TEKES and ELY-keskus, which provide capital for starting and growing companies.

TEKES

TEKES offers different kinds of aid to companies. Young and innovative company finance is a three phased financing model targeted to fast growing internationally operating companies. TEKES helps the company all the way to 1 million € with 25-50% own equity guarantee from the target company.

TEKES also supports companies in developing new products and operations. Product development aid is for developing new products or services. Aid consists of either a loan or a loan form. Development projects and program aid supports small and medium size enterprises. The aid is targeted for project research and networking. (Hermia Yrityskehitys Oy)

ELY-keskus

ELY (Centre for Economic Development, Transport and the Environment) offers for example start-up money for starting up a business. It supports the company by sharing salary expenses maximum for first 18 months.

ELY-keskus also offers other kinds of financial aid for companies. SME's can apply, for example, for Small and medium size enterprises development aid, targeted for supporting growth potential companies in beginning of the growth phase. It covers salary expenses, consulting fees, procurements and rents.

Preparation aid is targeted on research expenses for company's development and growth and covers a maximum of 70% of expenses (up to 15 000€). Productized service aid is a case considerate aid for small and medium size enterprises' development research projects, sales improvement or other needs. ELY-keskus also offers investment support, aimed for bigger investment needs.

(Hermia Yrityskehitys Oy)

Finnvera

Finnvera offers for example entrepreneurship loan, targeted for starting and developing company operation with reasonable interest rates. Small and medium size enterprise loans are targeted for small and medium size enterprises for developing their business.

(Hermia Yrityskehitys Oy)

4. CASE STUDY MML-RESOURCES LTD.

4.1 Goals

Goals of the research are to find most suitable solution to the case company and use that information to provide needed capital for developing the company's operations.

4.2 Research Methods

The research was made by dividing capital sources into four different categories: private investors, venture capitalists, banks and public sources. Inside these categories comparison was made to solve the best offer. After finding the best offer from every category, WACC was used as an indicator of the best combination of capital sources for the case company. The research was implemented by interviews and e-mail offers.

4.3 Offers from private investors

From private investors, the shareholders capacity to invest was evaluated and four investor prospects were contacted personally. In addition, one business angel association was contacted to ask for offers.

The company had two shareholders during the research. One of the current shareholders got his income from the case company and the other did not have capital to invest into the case company. (Lehtovaara, 2011)

Private Investor prospect 1

The first private investor was a long time entrepreneur and family member of one of the current shareholders. Investor prospect did not want to invest to any of his friends or family members businesses, because of the earlier experiences as an entrepreneur. (Malmgren, 2011)

Private Investor prospect 2

The second private investor had been a colleague of one of the current shareholders and is currently a shareholder in one of the major clients of the case company. This investor prospect had no interest on new investment. (Luoma, 2011)

Private Investor prospect 3

The third private investor prospect had worked in close co-operation with the case company and is also one of the shareholders in the case company's major client company Electric Power Finland Ltd. Electric Power Finland operates in railway safety equipment installation, household and large building electricity installation industries. He offered to invest 10 000 € in MML with 5% ownership in B-shares. The investment would be added to the company's own equity through share arrangements. (Pitkänen, 2011)

Private investor prospect 4

Fourth private investor prospect is working and is one of the shareholders in a telemarketing company. The prospect informed that he had too many ongoing projects at the moment and cannot attend to any additional projects. (Elovaara, 2011)

Private investor prospect 5

Fifth private investor prospect is working in railway electrification and is a family member of one of the current owners. He is interested in investing because he is soon retiring and wants to keep working after retirement. He offered an investment of 10 000€ for 5% ownership in company's B-shares. This investment would be added to the company's own equity through share arrangements. (Memonen, 2011)

Private investor association – Suomen Bisnesenkelit Ry

Private investor association Suomen Bisnesenkelit Ry handled the enquiry in its meeting. None of the members were interested in investing in the case company. (Bisnesenkelit Ry, 2011)

Comparison

Table 2 shows a comparison of the private investor options

Table 2: Comparison of private investors

Private investors	Willingness	Offer per %	Maximum invest	Ownership	Shares gender
Prospect 1	No	-	- €	-	-
Prospect 2	No	-	- €	-	-
Prospect 3	Yes	2 000,00 €	10 000,00 €	5 %	B-shares
Prospect 4	No	-	- €	-	-
Prospect 5	Yes	2 000,00 €	10 000,00 €	5 %	B-shares
Suomen Bisnesenkelit Ry	No	-	- €	-	-

4.4 Offers from venture capitalists

Five out of ten venture capitalist companies did not answer to requests for capital offers and the other five were not willing to provide capital to the target company. Reasons were that the company does not fit into their investment strategy, portfolio or they do not have open funds available.

Helmet business mentors Oy

Helmet business mentors Oy did not answer e-mails nor could the decision maker be reached by phone. They state on their webpage, that they typically invest in companies in generation change, business re-arrangements, companies with major international projects, or companies, whose owners want to reduce their ownership. They also state that they take part in developing the strategy and operation models of the companies they have invested in. Examples of their current investments are to companies such as Viikinki Restaurant Harald Oy, Majava Group Oy, Tikli Group Oy, Sisu akselit Oy. (Helmet Business mentors Oy, 2011)

Amanda Capital Oyj

Amanda Capital Oyj informed that their investments are made only through funds on behalf of other companies. In their website they state that the company has around 3500 private investors and 90% of their investments come through equity funds. In total Amanda Capital Public has 2,6 billion Euros of capital they govern. (Amanda capital Oyj, 2011)

Ahlstrom Capital Oy

Ahlström Capital Oy informed that the size and business field of the case company does not fit into their portfolio. They state on their website that the primary focus is on industrial companies and their portfolio turnover is over 1 billion Euros. They have currently invested in A&R Carton, Enics, Vacon, Symbicon and Elbi Electric. (Ahlström Capital Oy, 2011)

Auratum Oy

Auratum Oy informed that the business field and size of the case company does not fit into their investing strategy. On their website they state that their typical investment is an amount of 500 000€ - 1 500 000€ invested in software, biotechnology and nanotechnology companies. Their current portfolio consists of companies such as Continuent Inc, FromDistance, Commit, Avset and Delfoi. (Aura Capital, 2011), (Auratum Oy, 2011)

InnoFinance Oy

InnoFinance Oy informed that they do not have open funds for new investments at the moment. They usually invest in Finnish small and medium size enterprises operating in medicine, ICT, biotechnical and energy, chemistry, consumer goods, industrial and electronic business fields. (Inno Finance Oy, 2011)

Midinvest Management Oy

Midinvest Management Oy did not answer e-mails nor could the decision maker be reached by phone. They state on their website that they hold capital of 100 million Euros in total which they use to invest in small and medium size companies. Their requirement for companies that they invest in are: turnover of 5-50 million euro, good potential for high return on investment, high growth potential, own product or service, experienced and entrepreneur spirited staff and good trust relationships between the entrepreneur(s) and investors. New projects must be commercial and based on competitive expertise and there also has to be potential clients in sight. (Midinvest management Oy, 2011)

Nordic Growth Oy

Nordic Growth Oy did not answer e-mails nor could the decision maker be reached by phone. According to their website, they typically invest in companies with a turnover of 5-50 million Euros and which are in an expansion phase or in the middle of structural changes or are dealing with buy-and-build type of deals, where economies of scale is experienced due to its innovative market offering. They also require good growth possibilities via competitive advantage, experience in entrepreneurship management, technology or innovative service concept as competitive advantage, geographic expansion possibilities, a tested business model that supports rapid expansion and unique competences. (Nordic Growth Oy, 2011)

Suomen Teollisuussijoitus Oy

Suomen Teollisuussijoitus Oy is a government-owned investing company, which supports Finnish employment, entrepreneurship and economical growth. According to their website, their minimum investment is 1 M€ to a company that has a turnover of more than 10 M€. They are willing to look into the issue again, if these requirements are filled.

The company's current investment amount is 660 million Euros. They have invested in companies such as Litorina IV L.P., Capman Mezzazine V Fund FCP-SIF, Conor technology fund, Polaris Private Equity III Ky, Northzone VI L.P., MB Equity Fund IV, Sponsor Fund III Ky, EQT V (No. 1) Limited Partnership, Industrial Kapital 2000 Fund LP VII. (Suomen Teollisuussijoitus Oy, 2011)

MB-Rahastot Oy

MB-Rahastot Oy did not answer e-mails nor could the decision maker be reached by phone. According to the company website MB-Rahastot Oy is a private Finnish investor company, which invests in companies that are in middle of MBO-arrangements, privatization, structural changes or in a growth phase. The turnover of the target company is usually from 20-200 million Euros and they require close co-operation with the companies they invest in.

They are currently investing in companies such as Suomen Transvalt Oy, Forchem Oy, DNV Inspection AB, Norpe Oy, A-katsastus Oy, Oy Panda AB, Medivire Oy, Solitra Oy, Elcoteq Network Oy and A-rakennusmies Oy. (MB-Rahastot Oy, 2011)

Sponsor Capital Oy

Sponsor Capital Oy did not answer e-mails nor could the decision maker be reached by phone. They state on their website that they typically invest in companies that are in the middle of structural changes, MBO, growth phase or generation change. Currently in their portfolio they have companies such as Barona, Erätukku, Realia Group, Pouttu, Lujalvelut, Ecolator and Pretax. (Sponsor Capital Oy, 2011)

Comparison

Table 3 compares the venture capitalists in short.

Table 3: Comparison of Venture Capitalists

Company	Answer	Willingless	Given reason
Helmet business mentors Oy	No		No answer
Amanda Capital Oyj	Yes	No	Investing only through other funds.
Ahlstrom capital Oy	Yes	No	Does not fit to investing profile
Auratum Oy	Yes	No	Does not fit to investing profile
InnoFinance Oy	Yes	No	No fund for new first investments at the moment
Midinvest management Oy	No		No answer
Nordic growth Oy	No		No answer
Suomen Teollisuus sijoitus Oy	Yes	No	Minimum investment of 1M€ to companies turnover over 10M€
MB-Rahastot OY	No		No answer
Sponsor Capital Oy	No		No answer

50% of the venture capitalist companies, that were contacted, answered to the inquiry. None of the companies, which answered, were willing to invest in the case company. When comparing the case company to the venture capitalists investment requirements, it shows that the size of the company did not reach their requirements. Also the business field the case company operates in reduces the amount of potential venture capitalist companies as a capital source; venture capitalists typically require innovation and larger scale growth that the case company can provide at the moment.

4.5 Offers from banks

The willingness of banks to grant a loan was evaluated with personal meetings, e-mail and telephone conversations. Main issues were the interest terms and guarantees required from these capital providers. In addition, the form of the capital was negotiated; banks offered pure loan and overdraft credit accounts. Extra service offers are not included in comparisons and outcomes, because of the comparability of different sources.

Nordea

Nordea is one of the biggest banks operating in Finland. It states on its website that it is a strong European bank with 10 million customers. It has the first or second market position in the northern countries and employs 33 683 persons in around 1400 offices. It is listed in the stock market in Helsinki, Copenhagen and Stockholm. Three major stockholders are Sampo Group with 20,6% of shares, Swedish government with 19,9% of shares and Nordea-Fonden with 3,9% of shares. Its balance sheet total was 600,7 billion Euros and the market value 32 billion Euros. The amount of capital it governs is 180,2 billion Euros. (Nordea, 2011)

In loan negotiations Nordea offered a loan up to 25 000€ with co-guarantees from current owners. Reference interest rate is Euribor 6 months plus marginal of 4% and delivery fee of 0€. They also heavily marketed their other products like interest rate limits, insurances and additional services. These are not included in the comparisons because of the comparability of different sources. (Nordea, 2011)

Turun Seudun Osuuspankki

Turun Seudun Osuuspankki (Cooperative Bank) is part of OP-Pohjola Group.

According to their website, they have several different banks operating under one name. These banks are individual and operating in their own geographical area. They offer services to individuals, entrepreneurs, corporations and public institutes. There are over 200 individual offices and 16 unions under Osuuspankki. OP-Pohjola Groups profit before taxes was 575 million Euros in year 2010 and its balance sheet shows a total of 84 billion Euros. (OP-Pohjola Group, 2011)

In loan negotiations Turun Seudun Osuuspankki offered a loan only with Finnvera guarantees. The loan period is five years with six-month Euribor plus 3 % margin and a 300 € delivery fee. They did not market additional services and the meeting was brief. The bank representative stated that Finnvera or other guarantees are required although she admitted she had not read the material with background information of the case company. (Lähtenmäki-Riivari, 2011)

Liedon Säästöpankki

Liedon Säästöpankki is the second largest co-operative bank in Varsinais-Suomi region and the fourth largest savings bank group in Finland. The bank has 14 offices in eight different cities and 110 employees. Liedon Säästöpankki is part of the Finnish Savings Bank group. The Savings Bank group had around 577 000 clients in year 2009 and made profit of 66,4 million Euros. Its balance sheet showed a total of 7060 million Euros. (Liedon säästöpankki, 2011)

Liedon Säästöpankki offered a 10 000 € loan per personal guarantee with an interest of 2,25 % plus six-month Euribor. The payment time is up-to a six years with first year installment free. Delivery fee of the loan is 200€. Only a loan was offered and overdraft credit account was not. They did not offer any additional services such as interest limits or insurances.

The bank officials had familiarized themselves with the case company's status by reading the material provided by the company and acquiring D&B ratings. The case company's rating was AA+, which means that their financial status and payment behavior is on a good level. One of the current shareholders knew the bank official (office manager) and this made the loan application process smoother and more accurate than in other banks. (Ruonamo, 2011)

Sampo

Sampo Bank is part of the Danske Bank group, which is one of the leading banks in the Nordic markets. Danske bank group operates in 14 countries: Finland, Denmark, Sweden, Norway, Estonia, Latvia, Lithuania, Ireland, North-Ireland, Great Britain, Germany, Poland, Luxemburg and Russia. Altogether it serves over 5 000 000 customers in over 720 offices and has 22 000 employees. In Finland Sampo Bank has over 1,1 million customers and 100 000 corporate or association clients. Sampo Pankki Oyj's profit before taxes was 152,3 million Euros and its balance sheet showed a total of 26 158 million Euros. (Sampo Pankki, 2011)

Sampo offered a loan with Finnvera guarantee, an interest of 3% plus six-month Euribor and five years payment time. They were not willing to grant the loan with personal guarantees. They made the decisions based on the material provided to them earlier. The negotiations were held over phone. (Alanen, 2011)

Comparison

Table 4 summarizes and compares the capital offers by banks, where max sum in €, max time in years and I-F months equals maximum installment-free months and APR calculated according to six-month Euribor 17.1.2011. (European banking federation)

Table 4: Comparison of Bank Capital Offers

Bank	Max sum*	Max time (Y)*	APR*	Marginal	Additional costs	Guarantees	I-F months
Nordea	25 000	3	5,249%	4%	- €	Co-guarantee	6
Turun seudun Osuuspankki	40 000	5	4,860%	3%	300,00 €	Finnvera	0
Liedon säästöpankki	20 000	5	4,194%	2,25%	344,00 €	Personal 10k€/each	12
Sampo	40 000	5	4,249%	3%	- €	Finnvera	0

The table shows that loan amounts provided by banks differed from 20 000€ to 40 000€. The total amount of capital that the casecompany needed is 40 000€ and to that amount only Turun Seudun Osuuspankki and Sampo offered it with Finnvera guarantees. With personal guarantees Nordea offered 25 000€ and Liedon Säästöpankki 20 000€. This means that with these options the case company would need more than one source of capital.

Maximum payback time differed from three to five years. Nordea offered the shortest loan with possibility for six installment-free payment months. Also installment-free payment time was offered for up to one year by Liedon Säästöpankki, which offered maximum payment time of five years. Also Turun Seudun Osuuspankki and Sampo offered a five-year loan.

Margins and additional costs were from 2,25% margin at Liedon Säästöpankki to 4% margin at Nordea. Turun Seudun Osuuspankki and Sampo offered a 3% margin. Nordea and Sampo did not have any additional costs unlike Turun Seudun Osuuspankki and Liedon Säästöpankki. These fees effect on the interest can be seen from APR figures in the table.

APR levels differentiated from the lowest 4,194% at Liedon säästöpankki to the highest 5,249% at Nordea. Turun Seudun Osuuspankki offered a loan with an APR level of 4,86% and Sampo with 4,249%. These APR levels do not include the costs of guarantees and are purely calculated based on the fees of banks.

4.6 Offers from public sources

Public sources were contacted by e-mails and phone. TEKES and ELY refused, because of the outlines set by officials. More accurate services provided by public sources can be found from chapter 5.5.

TEKES

TEKES does not offer any support for retailing field of business. They only offer support for innovations and research projects. When negotiating with them via phone they told that they have education and training services for all entrepreneurs. The fees for these services differ, but are mostly open for all participants. (Tekes, 2010)

Finnvera

Finnvera offered a credit account guarantee up to 60% of the maximum credit amount on the account. For this guarantee their interest rate is 1,75% of the loan and 1% of the maximum credit amount yearly. These guarantee fees would be added to the banks own interest expenses and fees and so the capital provided has a high total APR level.

The negotiations with Finnvera were most time consuming and they required all the available information. It was positive that they got to know the case company's business before making a decision, but for flexible business this institute does not seem to be the best choice. Finnvera sets limits to the business after granting a loan or guarantee. Such operations as ownership changes, additional loans etc. must be approved by Finnvera.

ELY-KESKUS

ELY-keskus Länsi-Suomi could not offer any financial support because of the outlines laid by the officials. They support only the starting phase of the business, improvement-, innovation and internationalization projects and women's entrepreneurship. ELY-keskus does not support retailing business. ELY-keskus offers different kinds of courses for entrepreneurs to which the target company has an opportunity to attend. (Ely-Keskus, 2011)

Comparison

Table 5: Comparison of Public sources

Public source	Type of support	Terms	APR
TEKES	-	-	-
Finnvera	Credit account guarantee	60% of account, 1,75% interest on credit and 1% yearly fee of the maximum credit amount	3,598 %
ELY-KESKUS	-	-	-

As can be seen from the table, not many capital providers are available in the public sources sector. Most of the public sources offer capital to innovation and research or to the starting phase of the business. An already existing company such as the target company, which operates in retailing business, does not have many options for support by public sources. Only one offered capital to the case company in the form of a credit account guarantee.

Finnvera was the only public source offering capital to the case company with 3,598% APR on their guarantee for credit account. This means that the company would have to open a credit account in one of the commercial banks. The bank would also add an interest to the credit account and their fees and the interest would need to be taken into consideration when evaluating capital costs.

5. COMPARISON OF COMBINATIONS

5.1 Combinations

Comparison was made with WACC of combinations of different capital sources.

Venture capitalists are not included in the combination comparison, because of their lack of interest in investing. Total amount of needed capital was 40 000 €. (MML-Resources - Financial Plan, 2010)

Private investor and bank loan

Private investors were willing to invest 20 000 € in the company and banks were interested in a loan of 20 000 – 40 000€. Liedon Säästöpankki offered the cheapest capital from banks and private investors four and five offered the whole 20 000 € amount of capital with 10% ownership of the company.

The following charts show the whole effect of this choice to the case company's balance sheet and income statement forecasts.

MML-Resources Ltd. - Forecast Balance sheet

Assets	H1 2011	2011												2012	2013	2014	2015
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec				
Current Assets																	
Cash	50 000	51 067	49 094	46 370	43 037	42 187	43 326	44 728	44 340	46 770	49 564	53 984	57 114	99 146	180 489	268 818	357 147
Accounts receivable (30 days net)		19 340	19 340	28 510	28 510	38 680	38 680	48 850	48 850	50 850	59 020	50 850	50 850	66 330	105 270	105 270	105 270
Inventory																	
Prepaid expenses																	
Short-term investments																	
Total current assets	50 000	70 407	68 434	74 880	71 547	80 867	82 006	93 578	93 190	97 620	108 584	104 834	107 964	165 476	285 758	374 087	462 416
Fixed (Long-Term) Assets																	
Long-term investments																	
Property, plant, and equipment (Less accumulated depreciation)																	
Intangible assets																	
Total fixed assets																	
Other Assets																	
Deferred income tax																	
Other																	
Total Other Assets																	
Total Assets	50 000	70 407	68 434	74 880	71 547	80 867	82 006	93 578	93 190	97 620	108 584	104 834	107 964	165 476	285 758	374 087	462 416
Liabilities and Owner's Equity																	
Current Liabilities																	
Accounts payable		20 980	21 730	31 510	28 510	36 690	36 690	47 870	44 870	46 170	53 050	46 170	46 170	51 023	80 977	80 977	80 977
Short-term loans																	
Income taxes payable		1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	2 000	4 000	4 000	4 000
Accrued salaries and wages																	
Unearned revenue																	
Current portion of long-term debt																	
Total current liabilities		22 380	23 130	32 910	29 910	38 090	38 090	49 270	46 270	47 570	54 450	47 570	47 570	53 023	84 977	84 977	84 977
Long-Term Liabilities																	
Long-term debt	20 000	19 667	19 333	19 000	18 667	18 333	18 000	17 667	17 333	17 000	16 667	16 333	16 000	12 000	8 000	4 000	0
Deferred income tax																	
Other																	
Total long-term liabilities	20 000	19 667	19 333	19 000	18 667	18 333	18 000	17 667	17 333	17 000	16 667	16 333	16 000	12 000	8 000	4 000	0
Owner's Equity																	
Owner's investment	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000
Net profit		(1 640)	(4 030)	(7 030)	(7 029)	(5 557)	(4 084)	(3 359)	(413)	3 050	7 468	10 931	14 395	28 029	46 165	46 165	46 165
Retained earnings		2 48	2 64	3 26	3 11	3 31	3 16	3 51	3 15	2 95	2 90	2 56	2 43	42 424	74 194	92 329	92 329
Total owner's equity	30 000	28 360	25 970	22 971	22 971	24 443	25 916	26 641	29 587	33 050	37 468	40 931	44 395	100 453	192 782	285 111	377 440
Total Liabilities and Owner's Equity	50 000	70 407	68 434	74 880	71 547	80 867	82 006	93 578	93 190	97 620	108 584	104 834	107 964	165 476	285 758	374 087	462 416
Common Financial Ratios																	
Debt Ratio (Total Liabilities / Total Assets)	0,40	0,60	0,62	0,69	0,68	0,70	0,68	0,72	0,68	0,66	0,65	0,61	0,59	0,39	0,33	0,24	0,18
Current Ratio (Current Assets / Current Liabilities)	3,15	3,15	2,96	2,38	2,39	2,12	2,15	1,90	2,01	2,05	1,99	2,20	2,27	3,12	3,36	4,40	5,44
Working Capital (Current Assets - Current Liabilities)	30 000	48 027	45 304	41 971	41 637	42 777	43 916	44 308	46 920	50 050	54 135	57 265	60 395	112 453	200 782	289 111	377 440
Assets-to-Equity Ratio (Total Assets / Owner's Equity)	1,67	2,48	2,64	3,26	3,11	3,31	3,16	3,51	3,15	2,95	2,90	2,56	2,43	1,69	1,48	1,31	1,23
Debt-to-Equity Ratio (Total Liabilities / Owner's Equity)	0,67	1,48	1,64	2,26	2,11	2,31	2,16	2,51	2,15	1,95	1,90	1,56	1,43	0,65	0,48	0,31	0,23

Figure 3: Effects on BS with capital from bank and five investors

(MML-Resources Ltd., 2011)

MML-Resources Ltd.
Income Statement

Revenue	2011												TOTAL	2012	2013	2014	2015
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC		TOTAL	TOTAL	TOTAL	TOTAL
Sales revenue	19 340	19 340	28 510	28 510	38 680	38 680	48 850	48 850	50 850	59 020	50 850	50 850	482 330	764 495	1 228 743	1 228 743	1 228 743
(Less sales returns and allowances)													-	-	-	-	-
Service revenue																	
Interest revenue																	
Other revenue																	
Total Revenues	19 340	19 340	28 510	28 510	38 680	38 680	48 850	48 850	50 850	59 020	50 850	50 850	482 330	764 495	1 228 743	1 228 743	1 228 743
Expenses																	
Cost of goods sold	15 710	15 710	23 240	23 240	31 420	31 420	39 600	39 600	40 900	47 780	40 900	40 900	390 420	612 280	971 720	971 720	971 720
Salaries	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	24 000	48 000	96 000	96 000	96 000
Social costs 70% of salaries	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	12 000	24 000	48 000	48 000	48 000
Employee benefits	-	-	1 000	-	-	-	2 000	-	-	-	-	-	3 000	3 000	3 000	3 000	3 000
Marketing	-	-	1 000	-	-	-	1 000	-	-	-	-	-	2 000	2 000	2 000	2 000	2 000
Advertising	-	-	1 000	-	-	-	1 000	-	-	-	-	-	2 000	2 000	2 000	2 000	2 000
rent	-	-	-	-	-	-	-	-	-	-	-	-	-	7 200	7 200	7 200	7 200
Travelling	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	12 000	12 000	12 000	12 000	12 000
Electricity & water	-	-	-	-	-	-	-	-	-	-	-	-	1 800	1 800	1 800	1 800	1 800
Car	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office supplies	200	200	200	200	200	200	200	200	200	200	200	200	2 400	2 400	2 400	2 400	2 400
Telephone	200	200	200	200	200	200	200	200	200	200	200	200	2 400	2 400	2 400	2 400	2 400
Bookkeeping & auditors	200	950	1 200	200	200	200	200	200	200	200	200	200	4 150	8 300	16 600	16 600	16 600
Depreciations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT equipment & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	200	200	200	200	200	200	200	200	200	200	200	200	2 400	2 400	2 400	2 400	2 400
Interest expenses	70	70	70	70	70	70	70	70	70	70	70	70	838	838	838	838	838
Loan payment	333	333	333	333	333	333	333	333	333	333	333	333	4 000	4 000	4 000	4 000	4 000
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	20 980	21 730	31 510	28 510	36 690	36 690	47 870	44 870	46 170	53 050	46 170	46 170	455 608	726 618	1 166 358	1 166 358	1 166 358
Net Income Before Taxes	(1 640)	(2 390)	(3 000)	0	1 990	1 990	980	3 980	4 680	5 970	4 680	4 680	26 722	37 877	62 385	62 385	62 385
Income tax expense 20%	-	-	-	0	517	517	255	1 035	1 217	1 552	1 217	1 217	6 948	9 848	16 220	16 220	16 220
Income from Continuing Operations	(1 640)	(2 390)	(3 000)	0	1 473	1 473	725	2 945	3 463	4 418	3 463	3 463	14 395	28 029	46 165	46 165	46 165
Below-the-Line Items																	
Income from discontinued operations													-	-	-	-	-
Effect of accounting changes													-	-	-	-	-
Extraordinary items													-	-	-	-	-
Net Income	(1 640)	(2 390)	(3 000)	0	1 473	1 473	725	2 945	3 463	4 418	3 463	3 463	14 395	28 029	46 165	46 165	46 165
Net Income, YTD	(1 640)	(4 030)	(7 030)	(7 029)	(5 557)	(4 084)	(3 359)	(413)	3 050	7 468	10 931	14 395	14 395	28 029	46 165	46 165	46 165
Total fixed costs	5 270	6 030	8 270	5 270	5 270	5 270	8 270	5 270	5 270	5 270	5 270	5 270	65 188	114 338	194 638	194 638	194 638

Figure 4: Impact on IS of five investors and bank

(MML-Resources Ltd., 2011)

Private investor and public sources

Private investors were willing to invest 20 000 € in the company and one of the public sources, Finnvera, offered a loan guarantee of 60% of maximum sum on credit account.

The following charts show the whole effect of this choice to the case company's balance sheet and income statement forecasts.

Public sources and bank loan

Finnvera offered a credit account guarantee up to 60% of the total sum and among banks Liedon Säästöpankki was the one offering the cheapest capital with 2,25% interest rate for a loan of 10 000 € with guarantee from the owners. With two owners this would make 20 000 € in credit account guarantees from owners and 20 000 € guarantee from Finnvera. (Ruonamo, 2011)

The following charts show the whole effect of this choice to the case company's balance sheet and income statement forecasts.

MML-Resources Ltd. - Forecast
Balance sheet

Assets	BB 2011	2011												2012	2013	2014	2015
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec				
Current Assets																	
Cash	50 000	50 733	48 329	45 175	41 411	40 155	40 889	41 886	41 092	43 117	45 506	49 520	52 245	88 447	164 058	246 656	329 253
Accounts receivable (30 days net)		19 340	19 340	28 510	28 510	38 680	38 680	48 850	48 850	50 850	59 020	50 850	50 850	66 330	105 270	105 270	105 270
Inventory																	
Prepaid expenses																	
Short-term investments																	
Total current assets	50 000	70 073	67 669	73 685	69 921	78 835	79 569	90 736	89 942	93 967	104 526	100 370	103 095	154 777	269 328	351 925	434 523
Fixed (Long-Term) Assets																	
Long-term investments																	
Property, plant, and equipment (Less accumulated depreciation)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets																	
Total fixed assets																	
Other Assets																	
Deferred income tax																	
Other																	
Total Other Assets																	
Total Assets	50 000	70 073	67 669	73 685	69 921	78 835	79 569	90 736	89 942	93 967	104 526	100 370	103 095	154 777	269 328	351 925	434 523
Liabilities and Owner's Equity																	
Current Liabilities																	
Accounts payable		21 077	21 827	31 607	28 607	36 787	36 787	47 967	44 967	46 267	53 147	46 267	46 267	51 023	80 977	80 977	80 977
Short-term loans																	
Income taxes payable																	
Accrued salaries and wages		1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	2 000	4 000	4 000	4 000
Unearned revenue																	
Current portion of long-term debt																	
Total current liabilities		22 477	23 227	33 007	30 007	38 187	38 187	49 367	46 367	47 667	54 547	47 667	47 667	53 023	84 977	84 977	84 977
Long-Term Liabilities																	
Long-term debt	40 000	39 333	38 667	38 000	37 333	36 667	36 000	35 333	34 667	34 000	33 333	32 667	32 000	24 000	16 000	8 000	0
Deferred income tax																	
Other																	
Total long-term liabilities	40 000	39 333	38 667	38 000	37 333	36 667	36 000	35 333	34 667	34 000	33 333	32 667	32 000	24 000	16 000	8 000	0
Owner's Equity																	
Owner's investment	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000
Net profit		(1 737)	(4 235)	(7 322)	(7 419)	(6 019)	(4 618)	(3 965)	(1 092)	2 299	6 645	10 036	13 427	27 163	45 299	45 299	45 299
Retained earnings														40 591	72 463	90 597	90 597
Total owner's equity	10 000	8 263	5 775	2 678	2 581	3 981	5 382	6 035	8 908	12 299	16 645	20 036	23 427	77 754	168 351	288 949	349 546
Total Liabilities and Owner's Equity	50 000	70 073	67 669	73 685	69 921	78 835	79 569	90 736	89 942	93 967	104 526	100 370	103 095	154 777	269 328	351 925	434 523
COMMON Financial Ratios																	
Debt Ratio (Total Liabilities / Total Assets)	0,80	0,88	0,91	0,96	0,96	0,95	0,93	0,93	0,96	0,97	0,84	0,80	0,77	0,59	0,37	0,25	0,20
Current Ratio (Current Assets / Current Liabilities)	3,12	2,91	2,23	2,33	2,06	2,08	1,84	1,94	1,97	1,92	2,11	2,16	2,92	3,17	4,14	5,11	5,11
Working Capital (Current Assets - Current Liabilities)	50 000	47 596	44 442	40 678	39 914	40 648	41 382	41 368	43 575	46 299	49 978	52 703	55 427	101 754	184 351	266 949	349 546
Assets-to-Equity Ratio (Total Assets / Owner's Equity)	5,00	8,48	11,72	27,52	27,09	19,80	14,78	15,03	10,10	7,64	6,28	5,01	4,40	1,99	1,60	1,36	1,24
Debt-to-Equity Ratio (Total Liabilities / Owner's Equity)	4,00	7,48	10,72	26,52	26,09	18,80	13,78	14,03	9,10	6,64	5,28	4,01	3,40	0,99	0,60	0,36	0,24

Figure 7: Impact on BS by bank loan and public sources

(MML-Resources Ltd., 2011)

MML-Resources Ltd. -
Income Statement

	2011												TOTAL	2012	2013	2014	2015
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC		TOTAL	TOTAL	TOTAL	TOTAL
Revenue																	
Sales revenue	19 340	19 340	28 510	28 510	38 680	38 680	48 850	48 850	50 850	59 020	50 850	50 850	482 330	764 495	1 228 743	1 228 743	1 228 743
(Less sales returns and allowances)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Service revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	19 340	19 340	28 510	28 510	38 680	38 680	48 850	48 850	50 850	59 020	50 850	50 850	482 330	764 495	1 228 743	1 228 743	1 228 743
Expenses																	
Cost of goods sold	15 710	15 710	23 240	23 240	31 420	31 420	39 600	39 600	40 900	47 780	40 900	40 900	390 420	612 280	971 720	971 720	971 720
Salaries	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	24 000	48 000	96 000	96 000	96 000
Social costs 70 % of salaries	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	12 000	24 000	48 000	48 000	48 000
Employee benefits	-	-	1 000	-	-	-	2 000	-	-	-	-	-	3 000	3 000	3 000	3 000	3 000
Marketing	-	-	1 000	-	-	-	1 000	-	-	-	-	-	2 000	2 000	2 000	2 000	2 000
Advertising	-	-	-	-	-	-	-	-	-	-	-	-	-	7 200	7 200	7 200	7 200
rent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Travelling	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	12 000	12 000	12 000	12 000	12 000
Electricity & water	-	-	-	-	-	-	-	-	-	-	-	-	-	1 800	1 800	1 800	1 800
Car	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office supplies	200	200	200	200	200	200	200	200	200	200	200	200	2 400	2 400	2 400	2 400	2 400
Telephone	200	200	200	200	200	200	200	200	200	200	200	200	2 400	2 400	2 400	2 400	2 400
Bookkeeping & auditors	200	90	1 200	200	200	200	200	200	200	200	200	200	4 150	8 300	16 600	16 600	16 600
Depreciations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT equipment & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	200	200	200	200	200	200	200	200	200	200	200	200	2 400	2 400	2 400	2 400	2 400
Interest expenses	167	167	167	167	167	167	167	167	167	167	167	167	2 008	2 008	2 008	2 008	2 008
Loan payment	667	667	667	667	667	667	667	667	667	667	667	667	8 000	8 000	8 000	8 000	8 000
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	21 077	21 827	31 607	28 607	36 787	36 787	47 967	44 967	46 267	53 147	46 267	46 267	456 778	727 788	1 167 528	1 167 528	1 167 528
Net Income Before Taxes	(1 737)	(2 487)	(3 097)	(97)	1 893	1 893	883	3 883	4 583	5 873	4 583	4 583	25 552	36 707	61 215	61 215	61 215
Income tax expense 20%	-	-	-	-	492	492	229	1 009	1 191	1 527	1 191	1 191	6 644	9 544	15 916	15 916	15 916
Income from Continuing Operations	(1 737)	(2 487)	(3 097)	(97)	1 401	1 401	653	2 873	3 391	4 346	3 391	3 391	13 427	27 163	45 299	45 299	45 299
Below-the-Line Items																	
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of accounting changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Extraordinary items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	(1 737)	(2 487)	(3 097)	(97)	1 401	1 401	653	2 873	3 391	4 346	3 391	3 391	13 427	27 163	45 299	45 299	45 299
Net Income, YTD	(1 737)	(4 225)	(7 322)	(7 419)	(6 019)	(4 618)	(3 965)	(1 092)	2 299	6 645	10 036	13 427	13 427	27 163	45 299	45 299	45 299
Total fixed costs	5 367	6 117	8 367	5 367	5 367	5 367	8 367	5 367	5 367	5 367	5 367	5 367	66 358	115 808	195 808	195 808	195 808

Figure 8: Impact on IS by bank and public sources

(MML-Resources Ltd., 2011)

5.2 Comparison

Risk comparison

Total amount of the capital needed is 40 000 €. The table below shows the current owners risk level in Euros and in percentages.

Table 6: Current owner's risk

Source	Owners risk €	Owners risk %
Bank and private	20 000 €	50 %
Public and private	20 000 €	50 %
Bank and public	40 000 €	100 %

WACC Comparison (MML-Resources Ltd., 2011)

Table 7: WACC comparison

Bank and private		
Name	Liedon säästöpankki	Private investor
Weight	50,00 %	50,00 %
APR	4,19 %	20,00 %
	WACC	12,10 %

The WACC of the combination of a bank loan and private investors is 12,1%. Private investors APR is calculated based on their requirements for return on their investment. This figure is usually higher because of the risk they take when investing. Unlike bank loans they do not require personal guarantees from current owners. Bank loans are guaranteed by the current owners and the APR is lower because of a lower risk.

Table 8: WACC public and private

Public and private		
Name	Finnvera	Private investor
Weight	60,00 %	40,00 %
APR	5,85 %	20,00 %
	WACC	11,51 %

The WACC of the combination of a public source and a private investor is 11,51%. Public sources offer guarantees for a bank loans and so the banks interest rate plus fees

have to be calculated in their APR rate. This increases their APR rate over the normal bank loans. Public sources also require guarantees from current owners and thus do not bring any additional value if a bank loan can be acquired straight from the bank.

Table 9: WACC bank and public

Bank and Public		
Name	Liedon säästöpankki	Finnvera
Weight	50,00 %	50,00 %
APR	4,19 %	5,85 %
	WACC	5,02 %

In the combination of a bank loan and a public source the WACC is 5,02%. Public sources offer guarantees for bank loans so the banks interest rate plus fees have to be calculated in their APR rate. This increases their APR rate over normal bank loans. Public sources also require guarantees from current owners and thus do not bring any additional value if a bank loan can be acquired straight from the bank.

Risk and WACC comparison

Table 10 shows that the lowest WACC is in the combination of a bank and a public financing source. This also has the highest risk level for the current owners. It should be noted WACC is calculated through financial plans and the APR level of 20% per year is uncertain, unlike the WACC level in two other forms of capital.

Table 10: Risk and WACC comparison

Source	Owners risk €	Owners risk %	WACC
Bank and private	20 000 €	50 %	12,10 %
Public and private	20 000 €	50 %	11,51 %
Bank and public	40 000 €	100 %	5,02 %

6. CURRENT OWNERS POINT OF VIEW

Decision process

Current shareholders had a meeting on 7th of February 2011. In this meeting the risks and WACC of the capital offered to them from different sources were analyzed. This outcome is purely from the current owners' point of view (MML-Resources Ltd., 2011).

Private investors

The advantages of private investors were on the risk side and disadvantages in the cost of capital. Private investors take the risk to themselves when investing in the target company. This reduces the risk taken by the current owners of the company. Private investors that are also clients of the case company bind themselves and their current employees to the company and so bring additional value to it.

Table 11: Private Investors Pros and Cons

Private investor	Pros	Cons
Risk	Completely on the investor	-
Wacc	-	High cost of capital rate

Venture capitalist

Venture capitalists did not offer any capital, so evaluation was not needed.

Banks

Banks offered the lowest cost of capital compared to other sources, but the risk level of the current owners is high, because they need to guarantee the loan personally. The current owners thought this source could be used as part of the company's financing because it makes the current owners more committed to the company and also shows the private investors that the current owners are committed.

Table 12: Bank pros and cons

Banks	Pros	Cons
Risk	-	Completely on current owner through guarantees
Wacc	Low cost of capital	-

Public sources

Cost of capital from public sources was higher than banks' costs, because they only offered loan guarantee. The cost of the guarantee would be added to the bank loans interest and it would have increased the cost of capital. They also require guarantees from the current owners, which means that the owners bear the risks. Also they require approval for all shareholder changes in the company, which would have brought more bureaucracy to the company. Current owners did not wish to bind themselves or the company to a bureaucratic and expensive institute if the capital could be acquired elsewhere.

Table 13: Public source pros and cons

Public source	Pros	Cons
Risk	-	Completely on current owner through guarantees, bureaucracy is high – hard to make changes inside the company
Wacc	-	High cost of capital compared to straight bank loan

Comparison

Table 14: Comparison of Pros and Cons

Comparison	Pros	Cons	Total
Banks	1	1	0
Private investors	1	1	0
Public sources	0	2	-2

All sources had pros and cons from the current owners' point of view. Banks and private investors scored 0 points and public sector -2 points.

Banks had a low level WACC and they got a point from that. Private investors require greater return on their investment, which lifts their WACC and this made them lose one point. Public sources add their interest and fees to banks WACC, which was considered negative among current owners.

On the risk side, the fact that banks require guarantees from current owners made them lose a point. Investments by private investors do not need to be guaranteed by current owners and so it is risk free from the current owners point of view. This brought a point to private investors in risk evaluation. Public sources require guarantees from current owners to their loan guarantees and thus lost a point from risk assessment.

7. CASE COMPANY'S POINT OF VIEW

From the case company's point of view we can observe these options through balance sheet and income statement forecasts. The forecast has same basic figures of sales and expenses; only the impact of APR from different sources is affecting ratios and figures. Five year average ratios and figures are compared to each other.

7.1 Balance sheet ratios

Debt ratio

Debt ratio shows that only through private investors the company can have its debt equity ratio in a level that if more capital is needed in first two years, it can be required from several sources. The ratio of public and bank is 0,77 in first year and requiring more capital from banks is hard with this kind of debt ratio.

Table 15: Debt Ratio

Debt ratio	Start						Average	
		1st year	2nd year	3rd year	4th year	5th year	5 years	Best choice
Debt ratio (Total Liabilities / Total Assets)								
Public and private	0,40	0,59	0,39	0,33	0,24	0,18	0,35	x
Private and bank	0,40	0,59	0,39	0,33	0,24	0,18	0,35	x
Public and bank	0,80	0,77	0,50	0,37	0,26	0,20	0,42	

Current ratio

Current ratio shows that the current asset compared to current liabilities are in good level with each possibility. Only slight differences between options can be seen. The combination of private investor and bank capital gives the best average level in five years.

Table 16: Current ratio

Current ratio	Start						Average	
		1st year	2nd year	3rd year	4th year	5th year	5 years	Best choice
Current Ratio (Current Assets / Current Liabilities)								
Public and private		2,26	3,11	3,35	4,38	5,42	3,70	
Private and bank		2,27	3,12	3,36	4,40	5,44	3,72	x
Public and bank		2,16	2,92	3,17	4,14	5,11	3,50	

Working capital

Working capital level shows that the working capital amounts are almost in the same level with combinations of public source and private investors and private investors and bank loan. Public source and bank loan combination falls behind over 15 000€ from the second best choice. In this case also the combination of private and bank loan is the best choice with 208 308€ of working capital average in five years.

Table 17: Working capital

Working capital	Start						Average	
		1st year	2nd year	3rd year	4th year	5th year	5 years	Best choice
Working Capital (Current Assets - Current Liabilities)								
Public and private	50 000 €	60 120 €	111 687 €	199 525 €	287 362 €	375 200 €	206 779 €	
Private and bank	50 000 €	60 395 €	112 453 €	200 782 €	289 111 €	377 440 €	208 036 €	x
Public and bank	50 000 €	55 427 €	101 754 €	184 351 €	266 949 €	349 546 €	191 605 €	

Assets to equity ratio

Assets to equity ratio gives almost the same information as debt ratio. This shows that public source and private investor combination and private investor and bank loan combination are on the same level. Public source and bank loan combination falls behind also in this ratio.

Table 18: Assets-to-Equity Ratio

Assets-to-Equity Ratio	Start						Average	
		1st year	2nd year	3rd year	4th year	5th year	5 years	Best choice
Assets-to-Equity Ratio (Total Assets / Owner's Equity)								
Public and private	1,67	2,44	1,65	1,49	1,31	1,23	1,62	x
Private and bank	1,67	2,43	1,65	1,48	1,31	1,23	1,62	x
Public and bank	5,00	4,40	1,99	1,60	1,36	1,24	2,12	

Debt to equity ratio

Debt to equity ratio also gives the same kind of information than debt ratio and assets to equity ratio. It shows that public source and private investor combination and private investor and bank loan combination are in same five-year average ratio level. Public source and bank loan combination shows a lot bigger ratio and tells that the case company's financing is concentrated on debt more than owner's investments.

Table 19: Debt-to-Equity Ratio

Debt-to-Equity Ratio	Start	Average					Average	
Debt-to-Equity Ratio (Total Liabilities / Owner's Equity)		1st year	2nd year	3rd year	4th year	5th year	5 years	Best choice
Public and private	0,67	1,44	0,65	0,49	0,31	0,23	0,62	x
Private and bank	0,67	1,43	0,65	0,48	0,31	0,23	0,62	x
Public and bank	4,00	3,40	0,99	0,60	0,36	0,24	1,12	

7.2 Income statement figures

Total expenses

The total expenses field of the income statement shows that the cheapest five-year average level of a loan is in the combination of private investors and bank loan. Public source and bank loan combination generates over 1000 € more expenses yearly than the cheapest choice. Public source and private investor combination is also slightly more expensive than the combination of private investors and bank loan.

Table 20: Total expenses

Total expenses						Average	
Total expenses in period	1st year	2nd year	3rd year	4th year	5th year	5 years	Best choice
Public and private	455 940 €	726 950 €	1 166 690 €	1 166 690 €	1 166 690 €	936 592 €	
Private and bank	455 608 €	726 618 €	1 166 358 €	1 166 358 €	1 166 358 €	936 260 €	x
Public and bank	456 778 €	727 788 €	1 167 528 €	1 167 528 €	1 167 528 €	937 430 €	

Net income

Table 21: Net Income

Net income						Average	
Net income in period	1st year	2nd year	3rd year	4th year	5th year	5 years	Best choice
Public and private	14 120 €	27 783 €	45 919 €	45 919 €	45 919 €	35 932 €	
Private and bank	14 395 €	28 029 €	46 165 €	46 165 €	46 165 €	36 183 €	x
Public and bank	13 427 €	27 163 €	45 299 €	45 299 €	45 299 €	35 297 €	

Net incomes comparison shows us the same information than expenses comparison.

Because of the taxes the gap between choices is a bit smaller, but the information is that private investors and bank loan combination brings almost a 1000€ yearly more income to the company.

Net income till date

Net income till date shows the actual difference that the cost of capital brings to the case company's income in five years. The combination of private investors and bank loan brings almost 4500 Euros more income to the company than the combination of public source and bank loan. The figures in the public source and private investors combination show that the difference to best choice is in this case more than 1000 Euros in five years.

Table 22: Net Income till date

Net income TD						
Net income till date	1st year	2nd year	3rd year	4th year	5th year	Best choice
Public and private	14 120 €	41 904 €	87 822 €	133 741 €	179 660 €	
Private and bank	14 395 €	42 424 €	88 588 €	134 753 €	180 917 €	x
Public and bank	13 427 €	40 591 €	85 889 €	131 188 €	176 487 €	

7.3 Comparisons

Comparisons were calculated by giving one point to the combination with best ratio or figure of each ratio and figure compared before.

Table 23: Comparison of BS and IS figures

		Mixture		
	Ratio/Figure	Public and private	Private and bank	Bank and public
Balance sheet	Debt ratio	x	x	
	Current ratio		x	
	Working capital		x	
	Assets-to-equity ratio	x	x	
	Debt-to-equity ratio	x	x	
	BS total points	3	5	0
Income statement	Net expenses		x	
	Net income		x	
	Net income TD		x	
	IS Total points	0	3	0
	Total	3	8	0

Balance sheet ratios

The private investor and bank loan combination had the best ratio in all balance sheet ratios, so it gets five points. Three of the ratios were the same also with public source and private investor combination, so this combination gets three points. Bank loan and public source combination gets no points from balance sheet ratios or figures.

Income statement figures

In the income statement figures the private investors and bank loan combination collected all three points. This means that when these combinations are analyzed from the income point of view, private investors and bank loan combination is obviously the best one.

Total points

Eight points was the maximum amount of points in this comparison. As noticed before, the private investors and bank loan combination got all of the possible eight points.

This means that with these comparison methods it is clearly the best source to acquire capital for the case company.

The second best choice would be the combination of public source and private investors. It scored three points in total and was not far behind in at any section. The bank loan and public source combination did not receive any points in this comparison and was the most expensive source when comparing income. It also had most unwanted ratios in balance sheet ratios and so additional capital acquirement for the company would be harder with this source of capital.

8. CONCLUSION

The current owners of the target company decided to use private investors and bank loan for acquiring capital. Both of them guarantee a 10 000€ loan from the bank, which has to be calculated as their risk.

Private investors can invest in the company by buying B-shares from the company. The company buys these shares from the current owners when needed. Maximum shares bought by the target company is 20% of the total shares and it is decided that the company can sell them forward with a minimum price of 2000 € per percentage of the total shares and acquire up to 40 000€ capital to the company's equity through these sales. This is so called risk-free capital for the current owners.

Acquiring capital to a small company such as the target company is not easy during these times. As told none of the venture capitalist companies were interest in investing and public sources offered only loan guarantees with high interests and risk levels. Also in the bank sector the loan was granted without outside guarantees only from one bank with a bearable level of cost of capital. Also from the private investors' the only ones offering capital were the ones who already knew the company or its current owners. In other words, personal contacts were almost the only sources where the capital could be acquired; all financial sources offering capital had already some contacts to the company's current owners.

The outcome of the research applies only to the case company and cannot be generalized to any other small and medium size enterprises as such. The research might give some outlines for small and medium size companies operating in same or similar business field than the case company. Government support is targeted to industrial and production companies, so to companies operating in this kind of business, more capital sources are available. Also the cost of capital is lower when investing to some tangible assets, not just to guarantee company's cash flow and operational funds.

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