

Riverfort Global Opportunities PLC

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Paternoster Resources sees good returns in small company funding gap

It's not just people who need the occasional top-up loan, companies do too.

And just like borrowers with poor credit records, there is a raft of small, listed companies that can't get bank finance.

Watch: Paternoster Resources sees big opportunities to move company to next level

Start-ups, businesses or resource companies with no income until a project is up and running are a case in point.

Usually, companies tee up the finance for a project through equity funding at the start but when (almost inevitably) delays occur, trying to get funds to tide things over can be a nightmare.

Paternoster Resources PLC (LON:PRS) aims to fill the gap and has teamed up with RiverFort Capital to invest in just these situations.

RiverFort is hugely experienced in this type of finance package having been formed by Brian Kinane, ex-of small cap financier Yorkville, and James Lewis, who founded stockbroker Shard Capital.

RiverFort will act as an advisor to Paternoster, suggesting investments, deals, package structures and advice, though the final investment decision rests with Paternoster, says Nicholas Lee, chairman.

It is not a trust, he adds, where there is an investment manager, but the portfolio will nonetheless have a very strong RiverFort feel.

Variety of instruments

Investments will be straight debt, mezzanine finance, convertible loans and other instruments.

Equity is unlikely to figure as in the event of something going badly awry it bears the brunt of the risks, says Lee

There are still some equities in the portfolio: North Sea producer I3 Energy; Pires Investment; Arc Minerals and Plutus PowerGen, but these will become much less significant as the RiverFort-inspired portion of portfolio grows.

One thing in Paternoster's favour is that it is an investment company, not a fund, and that has allowed other fund managers to invest.

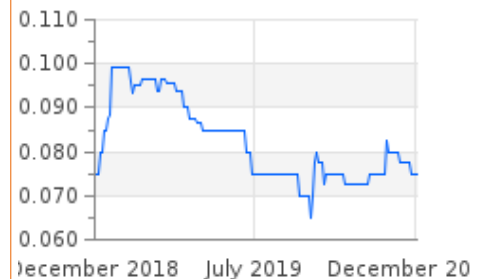
Small cap specialist Miton for example took a sizeable chunk of a funding at the start of the year that raised £5.4m through an issue of new shares.

In future, therefore the portfolio will generate cash-backed returns from interest payments, fees and debt principal

Price: 0.075

Market Cap: £5.09 m

1 Year Share Price Graph



Share Information

Code: RGO

Listing: AIM

52 week High Low
0.102 0.06

Sector: Investments and investor services

Website: riverfortcapital.net

Company Synopsis:

RiverFort Global Opportunities plc is a investment company listed on AIM, part of the London Stock Exchange, seeking to generate returns for shareholders through capital growth and income by way of dividends. Invests by providing equity-linked debt funding to public and private small cap growth companies in the technology, natural resources, energy, financial and healthcare industry sectors.

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repayments rather than having to rely on the value of the investee companies going up.

Good returns with low volatility

That way Paternoster can generate good returns but without the volatility, he says, and have the scope to pay dividends.

And if a business does run into real difficulty, holding debt rather than equity makes Paternoster's position more secure.

The returns may be lost but principal is protected, says Lee.

"It's equity that gets hit in a restructuring."

He denies it is just distressed lending, rather a gap in the market that requires funding solutions.

"We'll provide funding to companies without earnings that want to do an acquisition - or need a bit of short-term working capital but don't want to raise equity."

But there is a stigma attached to this form of lending, especially stand-by facilities that have come to be known among investors as 'rolling shorts' or even 'death spirals'.

Lee says that while certain investments may include variable term convertibles, there are a range of other investment structures that can be provided, dependent on a company's needs.

For Paternoster investors, however, the proposition offers a steady way to play the junior company funding space.

On a 12-month loan, for instance, fees, interest and repayments means half the money can be paid back within six months.

Change starts to show

Half-year results out recently showed the first signs of the change in strategy.

Fees and income from the RiverFort-recommended investments jumped to £181,000 from almost nothing a year earlier, outweighing the drop in the value of the investment portfolio.

Over £1mln has now been invested in recommendations made by RiverFort.

By the end of the year, the majority of the portfolio will comprise debt and equity-linked investments.

"Interim results showed the first signs of the shift in the portfolio, with cash income rising and that will be the pattern going forward," said Lee.

At 0.1p the business is valued at around £6.5mln.

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