Finding the Money

Axiom Strategy Advisors, LLC

LEARNING OBJECTIVES

- Understand alternative sources of funding
- Distinguish between various types of funding
- Learn what funders are looking for
- Understand the lending process
- Identify the best source of funding for your business

Learning Objectives

FACTS…

- According to the Global Entrepreneurship Monitor, U.S. start-ups and growing businesses receive over $260 billion per year from formal and informal sources!
- This includes money that comes from banks, investment firms, friends and other parties
- So the question is :
  - How much do you need?
  - Where will you get it from?

Two Types of Financing:

- Debt – is borrowing money to be repaid over time.

  (business loans and equipment financing)

- Equity – is investment in a company for the share of the company's ownership.

  (owner’s investment and selling of stock)

Debt Financing…

- Debt – is getting a loan
  - A direct obligation to repay the money (principle) plus interest.
  - The amount of debt payments depends on the amount borrowed, the length of the loan and the interest rate
  - Credit cards are considered debt financing
  - Most flexible form is a line of credit
- Characteristics of business suitable for debt financing
  - Business has low risk with a more predictable return
  - Strong cash flow
  - Audited financials
  - Good management
  - Healthy balance sheet

DEBT FINANCING -Types of Loans

- Regular Bank Loans:
  - Installment Loans
    - Bank gives borrowers a set amount of money for a set period of time
    - Borrower agrees to repay the money plus interest
    - The loan will include restrictions called covenants on the business and the owners
  - Lines of Credit
    - Bank advances money through a line of credit to help the business maintain positive cash flow.
    - LOC are often used to cover seasonal expenses or purchases
  - Letters of Credit
    - Bank agrees to back the borrower with a letter of credit so that the company can make inventory and other purchases
    - Banks view a standby letter of credit as if it is a loan because if the company fails to pay its supplier, the bank will convert the letter to a high interest rate loan
    - Only available to companies with great banking relationship and great credit

DEBT FINANCING -Types of Loans

- Regular Bank Loans:
  - Contract Loans
    - Bank gives borrowers a loan based on the percentage of the value of the executed contact in advance of completed term on the contact.
  - Single Payment Loans
    - Bank makes a lump-sum advance and the borrower makes a lump-sum repayment of the loan
  - SBA Guarantee Loans
    - Bank agrees to lend money to the borrower
    - SBA guarantees 50% to 85% of the loan amount
    - If the borrower defaults, the SBA pays the bank the guaranteed portion of the loan
    - <u>SBA Pre-qualification</u> – SBA commits to guaranteeing the loan before the bank sees it.

DEBT FINANCING -Types of Loans

- SBA Guarantee Loans:

—7(a) Loan Program

  - Bank gives borrowers a loan back by the SBA for exports to foreign countries, business that operate in rural areas and other specific purposes.

—Microloans

  - Bank makes small loans up to $50,000 for working capital, equipment and land.

—SBA Disaster Loans

  - SBA lends low interest loans to families and businesses affected by disasters.

Equity Financing…

- Equity – Not a loan
  - No obligation to repay money
  - Selling a % of your company via stock (if corporation)
  - Equity investor become partial owners of your company
  - Equity investors are seeking a return on their investment
- Characteristics of Venture and Equity Financing
  - Unique business idea
  - High Growth
  - Nice Market
  - Proven Management

Equity Financing – Types of funding

- Primary Disadvantage: Ownership interest and/or control
- Three most common forms of equity financing
  - Angel Investors – accredited investor, high net worth individuals investing person capital
  - Venture Capital – limited partnerships of money managers who raise money in "funds" to invest in start-ups or growing firms
  - Initial Public Offering – selling stock to the public
- Angels and VC's look for significant returns over a 3-5 year period, depending on the stage of business and perceived risk of the venture

Comparison of Debt and Equity

	Debt	Equity
Ownership	No dilution of ownership	Give up a % of your company
Obligation to Repay	Pressure to repay principle and interest	No pressure to repay
Tax Considerations	Interest portion of a loan payment is tax-deductible	Dividends paid to any owners are not tax deductible

Alternative Financing

- Trade Credit (Accounts Payable)
  - *An arrangement to buy goods or services on account*
- Financing from Friends and Family
  - *Family/friend financing can give you flexibility in payback*
- Bootstrapping
  - *The use of any means possible to obtain resources other than borrowing or raising money from traditional sources*
- Factoring
  - *Selling your accounts receivable*

BEING BANKABLE

- What type of banking relationship do your currently have?
- Have any of you gotten credit from a bank, other than a credit card?
  - How was the process?
- Do you think you can get money from a bank or other lender?
- What would you do with your business right now if you had the money you needed?

What Lenders Look for

- **Personal Issues**
  - Credit History
    - Know your credit score
  - Experience
  - Owner's investment (25-35) of the total amount
  - Personal collateral
  - Personal Guarantee

- **Business Issues**
  - Type of Industry
  - Cash Flow of the business
    - Financial Statements
    - Tax returns
  - Business Collateral
  - Other (for example aging accounts receivable)

HOW DO CREDITORS MAKE LENDING DECISIONS?

- <u>The 7 C's of Credit</u>:
  - Capacity – *(Your ability to repay the loan)*
  - Capital – *(How much money the owner has personally invested in the business)*
  - Collateral - *(Asset to secure the loan)*
  - Conditions – *(Anything that will affect your business…PEST)*
  - Character – *(Impression you make on the lender or the investor)*
  - Commitment- *(Your ability and willingness to succeed)*
  - Credit – (*Your history …do you paid bills on time)*

Do you know your personal credit score?

KNOW YOUR CREDIT REPORT

- Know and understand what is on your credit report
- To order yours:
  - Equifax: www.equifax.com, 1-800-685-1111
  - Experian: www.experian.com, 1-888-397-3742
  - Transunion: www.transunion.com, 1-800-916-8800
- You have the right to dispute any incorrect information

Developing Successful Banking Relationships

- Identify and establish relationships with financial institution close to your business
- Identify the right person and call to make an appointment
- Select a banker with whom you feel comfortable
- Select a banker who is interested in and has knowledge about your type of business
- Enroll them in your vision!
  - Ask the banker for advice about your business

Developing Successful Banking Relationships

- Create a win-win
  - Establish multiple banking relationships with the same bank, checking, savings, merchant services etc.
- Don't wait to establish relationship until you need money
- Present a complete business plan including financials
- Tell the Truth
- Be Flexible
- Be Patient

Why is all of this so important?

WHY MOST VENTURES NEED FUNDING

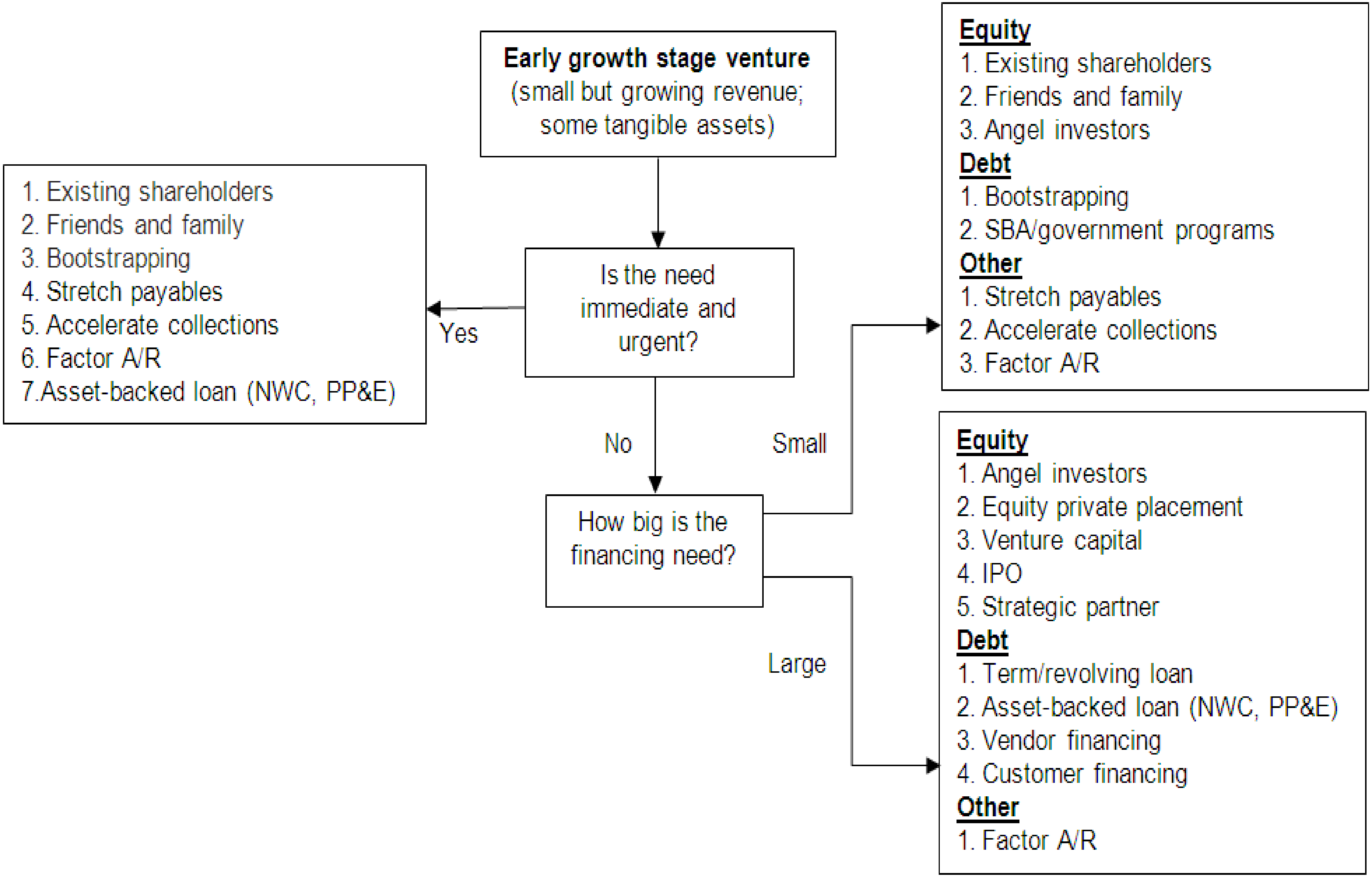
[redacted]

1. **Cash Flow Challenges**
   - Permanent Working Capital
     - To cover such expenses as payroll, debt repayment, rent, marketing campaigns
   - Seasonal Working Capital
     - To cover seasonal fluctuations in expenses
     - To support planned growth

2. **Capital Investments**
   - **Equipment Acquisition**
   - **Real Estate Acquisition**

3. **Research and Development**
   - **Innovative new products or services**

THE FINANCING DECISION PROCESS



Preparing My Financing Pitch

What Do I Say to a Lender?

ASSIGNMENT: FINANCING PITCH

Exercise Topic: Financing Pitch
Total Time: 60 minutes

Assignment:
Divide class in breakout groups of 3. Each participant will practice financing pitch to small breakout group. Other participants will provide feedback for 10 minutes and then switch. Business advisors will rotate and provide feedback.

Financing Pitch Outline:
Step 1 - Introduce yourself and your qualifications – 20 seconds
Step 2 - Describe the opportunity or problem that needs to be solved – 20 seconds
Step 3 - Describe how your product or service meets the opportunity or solves the problem – 20 seconds
Step 4 - Describe your business model – 60 seconds
- Revenue and cost drivers
- Your current net income margin
- Your break-even point, and when you will achieve

Step 5 - What is your strategy for growth – 20 seconds
Step 6 - How much money do you need and for what – 20 seconds
Step 7 - How will you help your community – 20 seconds

Total time allocated of pitch: **3 minutes**

PRACTICE, PRACTICE, PRACTICE

Q&A

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Helping businesses achieve the results that matter.

Together we soar.

Axiom Strategy Advisors, LLC