



New Growth

This Webinar is featured today by the START HERE Prime Project and the New Growth Women's Business Center

Show Me the Money! Financing Your Small Business

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Your Dreams
to Reality:
Financing Small Businesses

Key Objectives

- ▶ Understand the resources required to execute on your venture concept; understand the different opportunities to fund start-up and subsequent growth; opportunities and challenges associated with each.
- ▶ Additionally:
 - Understand what types of financing are available for your business.
 - Develop an action plan to access it.



Am I ready to be a business owner?

- ▶ Hours
- ▶ Commitment
- ▶ Family Life
- ▶ Limited Personal Spending

Lifecycle of a Business

1. Dream it
2. Launch it
3. Grow it
4. Reinvent it
5. Exit



Why Most Successful Businesses Need Funding

CASH FLOW CHALLENGES

Inventory must be purchased, employees must be trained and paid, and advertising must be paid for before cash is generated from sales.

CAPITAL INVESTMENTS

The cost of buying real estate, building facilities and purchasing equipment typically exceeds a firm's ability to provide funds for these needs on its own.

LENGTHY PRODUCT DEVELOPMENT CYCLES

Some products are under development for years before they generate earnings. The up-front costs often exceed a firm's ability to fund these activities on its own.

Two ways to Fund a Business



Debt

vs.



Equity

Debt vs. Equity

DEBT

- Bank loan
(or other lender)
- Allows you to maintain ownership and control
- Requires repayment with interest
- Generally considered the cheapest way to grow

EQUITY

- Involves investors
- Money is exchanged for partial ownership
- Is not paid back
- Means you have shareholders
- Can have huge benefits beyond the money

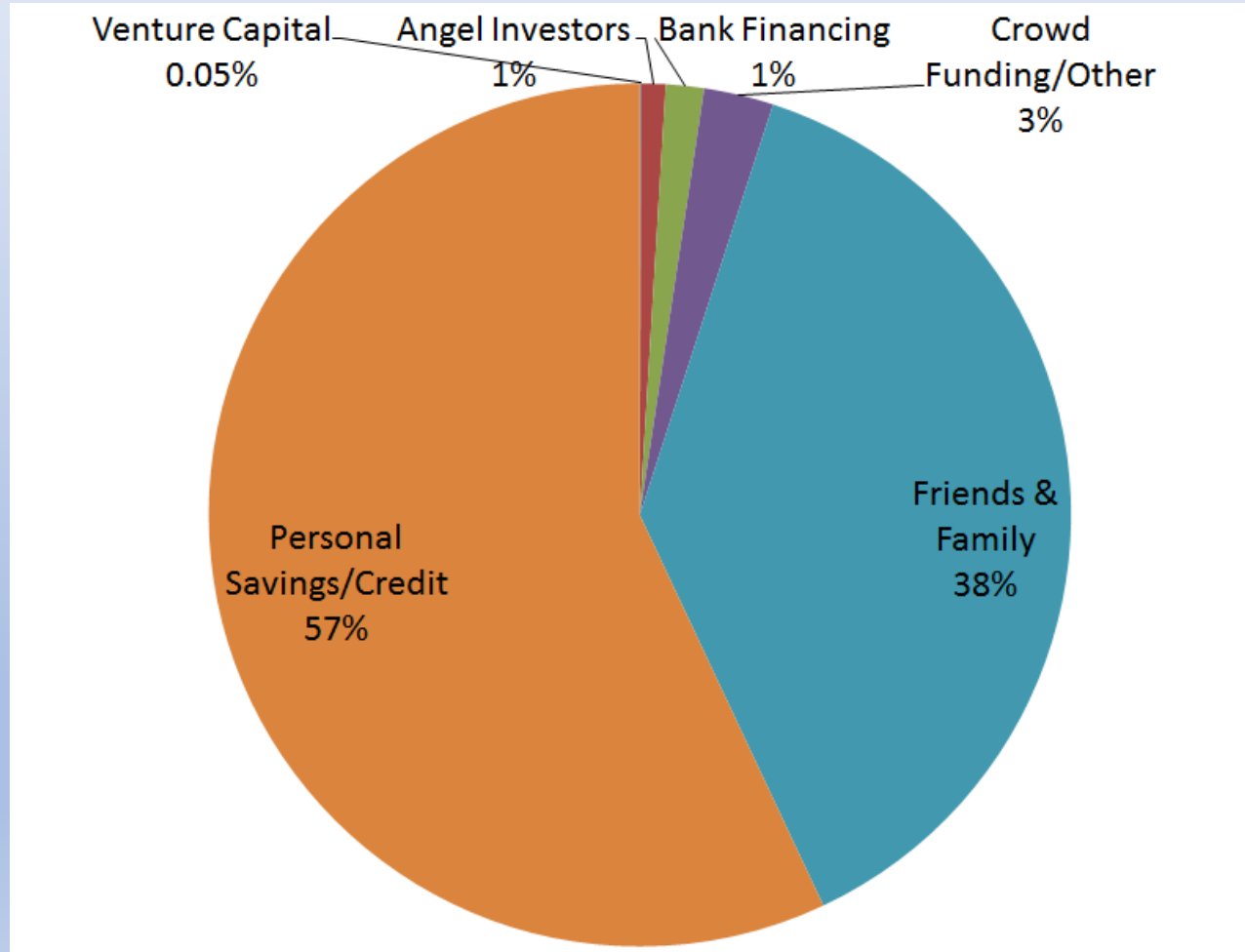
Equity Financing

- ▶ Savings
- ▶ Family and Friends
- ▶ Partners or Investors
- ▶ Venture Capital
- ▶ Angel Investors

Debt Financing

- ▶ Bank Loans
- ▶ SBA Guaranteed Loans
- ▶ Leasing
- ▶ Business Credit Cards
- ▶ Vendor Credit
- ▶ Personal or Home Equity Loans
- ▶ Public Issue Stock
- ▶ Venture Capital

Where Startups Get Their Financing



Source: Entrepreneur Magazine

Questions to ask yourself

- How much money do I need?
- What type of business is it?
- What type of capital is most appropriate?
- How much control do I need?
- What is my bargaining position?

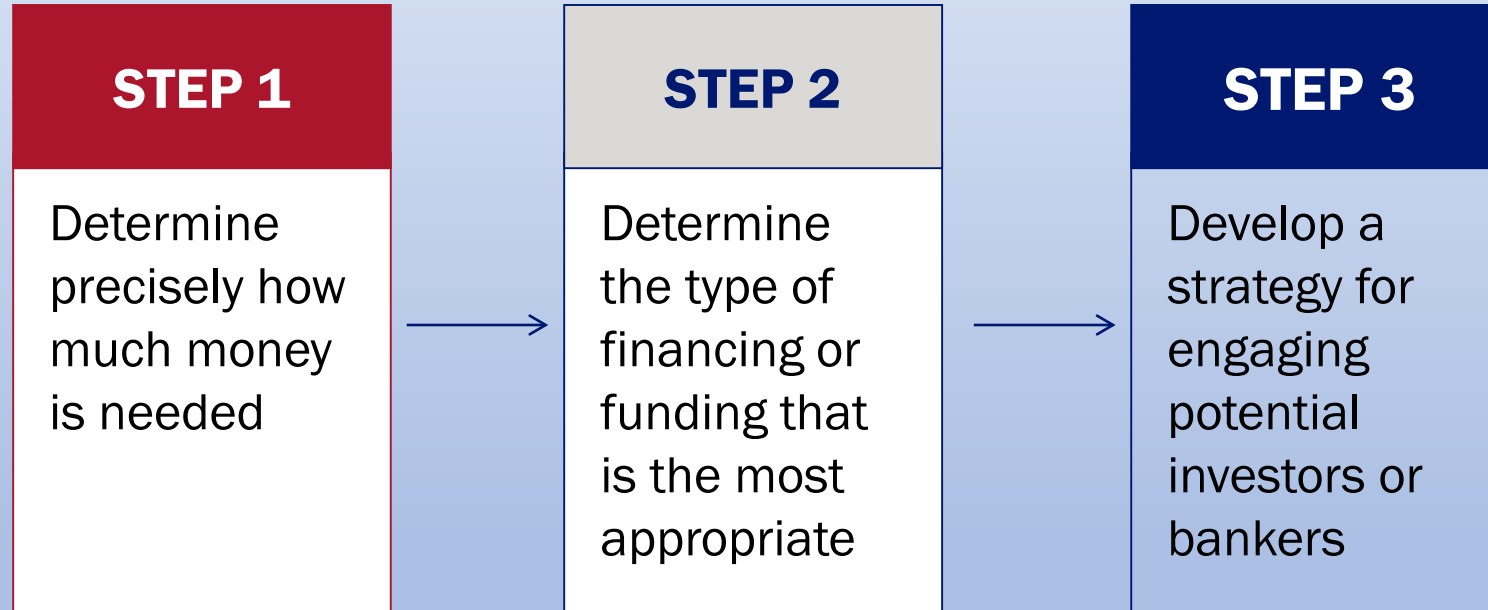


Personal Funds

- **You need skin in the game before you seek any external funding!**
- **Sources of personal funding**
 - Cash/Savings
 - Bootstrapping techniques (getting what you need without spending much on it)
 - Home equity
 - Friends and family
 - Credit Cards
 - Equities and stock portfolio
 - Retirement accounts

Preparing to Raise Debt or Equity Capital

Preparation for Debt or Equity Financing





Project Cost Estimate

Title Application,
Sales Tax, Inspections and Insurance

Purchase Price

Franchise Cost
Fixed Assets (equipment, machinery, furniture
and fixtures
Leasehold Improvements

Inventory

Beginning Inventory
Operating Supplies

Deposits

Gas, Electric, Telephone,
Sales Tax – Bond

Licenses & Rent

Business License (City and County)
Security Deposits – One month Rent

Loan Fees

SBA Guaranty Fee
Closing Cost

Legal and Professional

Attorney, CPA, Bookkeeper

Working Capital

6-12 months

Vehicles

Debt

- **Provides liquidity, NOT investment**
 - Banks are risk averse
- **Requires “The Five Cs”**
 - Character
 - Capacity
 - Capital
 - Conditions
 - Collateral
- **Local community banks and credit unions may be a good option**

Key Components and the 5 C's of Credit



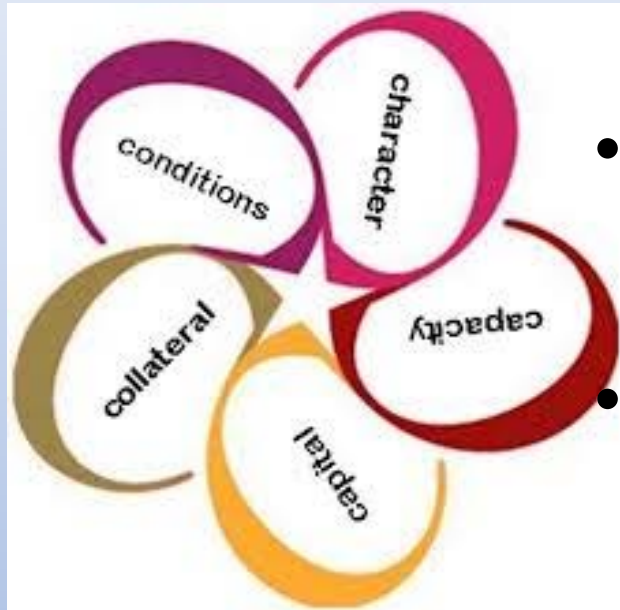
- **Character**

- Credit History – Generally 650 or better
- Criminal Background

- **Capacity**

- Ability to produce the goods and services
- Cash flow to service the loan
- Prior payment history
- Experience

Key Components and the 5 C's of Credit



- **Capital**
 - How much money is invested into the company?
- **Conditions**
 - Nature of the business
 - Economic conditions
- **Collateral**
 - Assets pledged as a source of repayment
 - Value at time of liquidation

Common Misconceptions of Lending

▶ **Conventional Lending**

- Personal Credit does not have an impact on business lending
- Rates and terms for commercial lending vary significantly from mortgage lending

▶ **SBA**

- Guaranty is for the business not for the Bank
- SBA Loans take significantly longer than traditional loan

A Typical Bank Loan Policy

- Owner must have at least two years experience in industry
- Borrower must contribute 20-25% of the total project cost
- Guarantor/borrower must have a beacon score of at least 650
- Fully collateralized
- 2 years historical cash flows

SBA Guaranteed Loans

- **SBA financial assistance programs can help you:**
 - Start your business or purchase a business
 - Grow your business
 - Expand Operations
 - Export your goods and services
 - Recover from a disaster
- **Small businesses can access a maximum of \$5 million in SBA guaranteed financing**
 - Can be used for most small business finance needs
 - Multiple loans allowable, but total SBA-backed loans can't exceed \$5 million

<http://www.sba.gov/financing>

Microloans

- ▶ \$500 to \$50,000
- ▶ No Down Payment Required
- ▶ No Penalty for Early Payoff
- ▶ Interest Rates 4% to 12%
- ▶ Credit Building Activities
- ▶ Administered by non-profit lenders
- ▶ Management/Technical Assistance usually provided

Eligible Use of Proceeds

Business Acquisition

Franchise Purchase

Business Expansion

Refinance Existing Business Debt

Business Start Up Cost

Commercial Real Estate

Working Capital

Equipment, Machinery &
Inventory

Every business is different and their funding requests vary. Determine what your business needs!

Not Eligible for SBA Financing

- Gambling or speculation
- Real estate investment/
other speculative activities
- Lending activities
- Multi-level marketing firms
- Businesses providing sexual
material
- Religious organizations
- Non-profit organizations
- Charitable organizations
- Illegal Activities
- Borrowers that have
defaulted on federal loans
or financing

Experienced Lenders

SBA recognizes lender status based on the lenders experience, how they demonstrate their ability to follow the rules of the program and volume of loan production.

▶ **PLP – Preferred Lenders Program**

- Designated by SBA to act as fiduciary.
- SBA delegates the final credit decision to the lender
- Streamlines the loan process

▶ **Standard**

- Submits application to SBA for approval

USDA Loans & Loan Guarantees

- ▶ **Businesses in rural areas can use for:**
 - New business start-up expenses
 - Acquiring an existing business
 - Purchasing land, buildings or facilities
 - Modernization & other business improvements



What's the advantage of a Government-Guaranteed Loan?

▶ For banks/credit unions:

- Less risky for them because the government “guarantees” a percentage of the loan

▶ For YOU:

- Can obtain loan without as large of a down payment or as much collateral on-hand
- Good interest rates and longer terms
- No balloon payments or demand clauses

Pandemic Relief Funding

Angel Investors/ Venture Capitalists

Angel Investors

- Individuals who invest their personal capital directly in start-ups
- Business angels are valuable because of their willingness to make relatively small investments, and for their industry knowledge and market connections

Venture Capitalists

- VC firms are limited partnerships of money managers who raise money in “funds” to invest in start-ups and growing firms
- Invest in high growth potential ventures, but not generally at the start-up stage
- Looking for extraordinary returns
- Fund fewer deals than Angels

Financial Statements You Will Need

BALANCE SHEET: Snap shot of a firms assets and claims against those assets. Shows what the company owns, owes and how it is financed.

INCOME STATEMENT/PROFIT-LOSS STATEMENT: Shows revenue and expenses and provides a 'bottom line' of profitability over a specified period.

CASH FLOW STATEMENT: Shows sources and uses of cash as well as net change on cash over a specified period.

Why do Businesses Fail?

- **Inadequate front-end planning**
 - No business plan prepared
 - No feasibility study
 - No cash flow projections
 - No infrastructure in place
- **Insufficient capital for start up and back up**
- **Inexperienced management**
 - Surround yourself with a good team
- **The wrong location**

Key Takeaways

- Plan for future growth
- Small business capital can come in a variety of different forms
- Know the difference between debt and equity financing
- Understand how much you need
- Consider SBA loan programs that provide financial assistance for a variety of business needs



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FROM DEEP ROOTS

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