

# Banking Your Deal: How to Navigate the Financing

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# Choosing the Right Bank

Reputation/Reliability

Knowledge/Understanding

Relationship

Structure of Financing

Bank Capabilities

# Lender Thoughts

## The 5 C's of Credit

### 1. **Character:**

Business and management's integrity

### 2. **Capacity:**

Business' ability to borrow funds and pay back the loan

### 3. **Collateral:**

"Hard Assets" a business can provide to back up monthly cash flow

### 4. **Capital:**

Resources a business has in reserve. How are they generated? Are they adequate?

### 5. **Conditions:**

Current industry, economic, and regulatory environment

Does the borrower's and the management's past performance provide confidence?

# Documents for Lender

- Business Plan
- Financial Information
  - Three years of corporate tax returns
  - Three years of balance sheet data
  - Three years of income statements
  - Personal financial statements and tax returns
  - Accounts receivable and accounts payable agings
  - Month-to-month interim cash flow (vs. last year)
  - Projections



# Cash Flow Analysis

- EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)
- Discretionary Expenses?
- Discretionary Compensation?
- Expected Increases or Reductions?



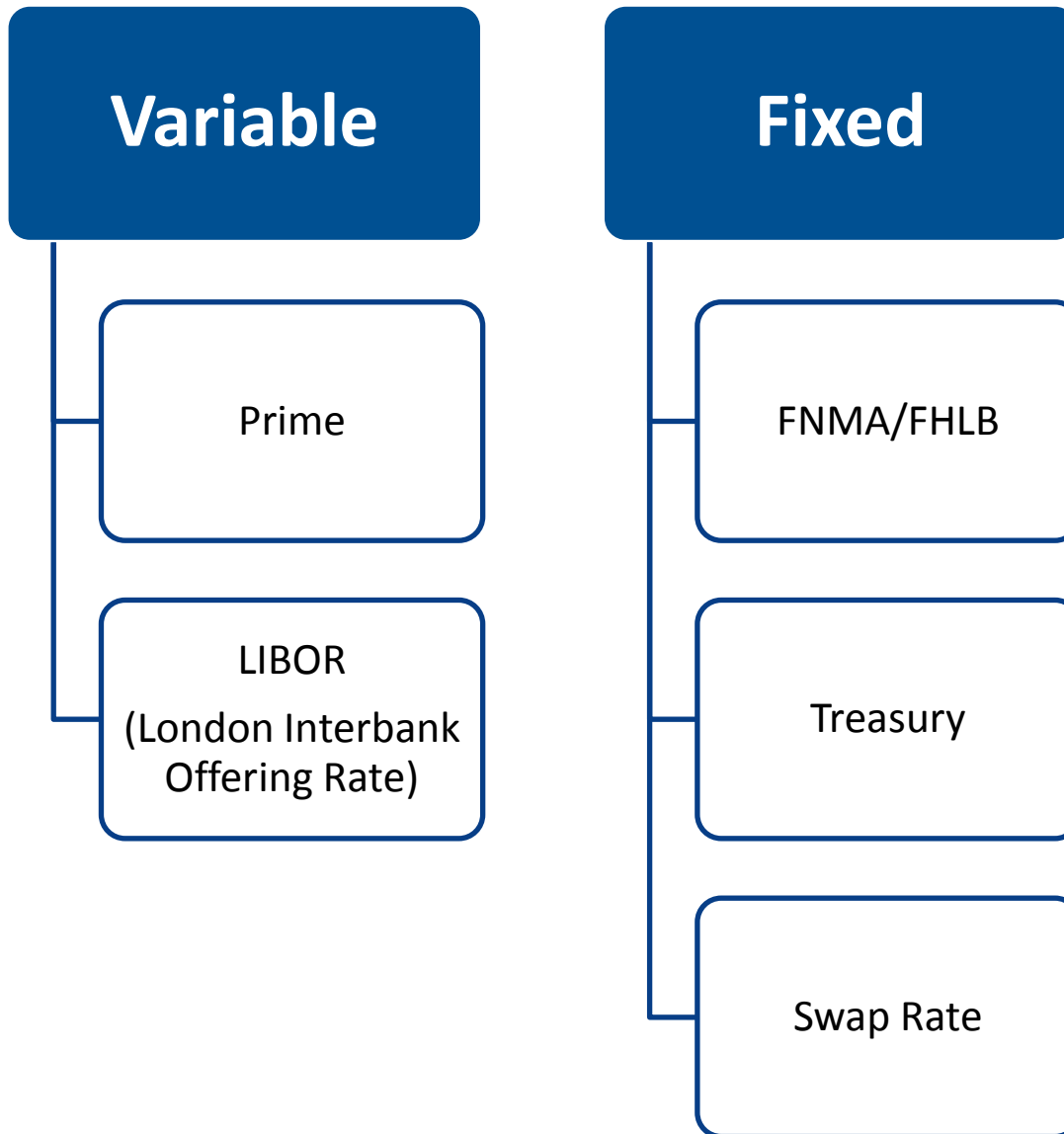
# Debt Service Coverage

1. EBITDA – Discretionary Expenses – Unfunded Capital Expenses  
= **AVAILABLE CASH FLOW FOR DEBT SERVICE (ACF)**
2. Divide ACF by Principal and Interest Payments
3. Historical standard is 1.25x

## Collateral Analysis

- Standard is all business assets
- 80% FFE
- 50 - 80% INV
- 70 - 80% of 90 day A/R
- Market or liquidation value?

# Interest Rate Indexes

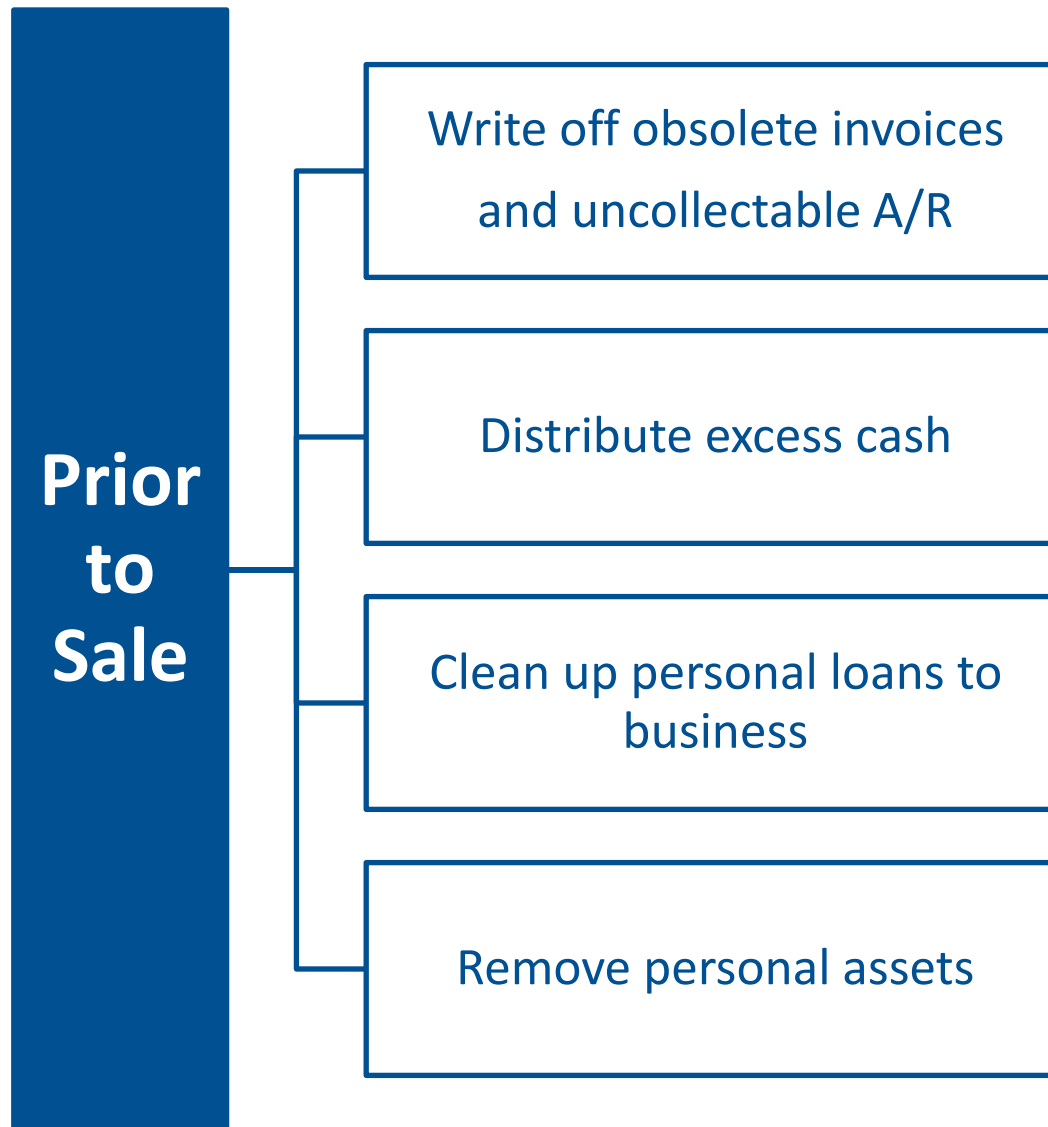


# Concerns in Rising Rate/Transition-Oriented Environment

- Decrease in available cash after debt service
- Strain to meet debt service covenants
- Effect on cost of goods and/or customer buying decisions
- Increased return expectations of buyers
- Negative impact on availability of capital
- Prepayment penalties/swap breakage fees
- Anticipate the gap between price and available bank financing



# Balance Sheet Management



# Other Things to Consider

- Plan for your departure (empower management)
- Implement systems (controls/financial reports)
- Decrease customer concentration
- Eliminate family issues
- Keep selling! Keep up morale!



# Sources of Funding

- Banks & credit unions
- Finance companies
- Private investors
- Friends & family



# Team of Advisors

- Lawyer
- Accountant
- Banker
- Insurance Professional
- Business Advisor/Broker



# Required Thought Process

*How will this strategy, action, or decision affect my ability to sell my business at the price I want?*

# Questions?