


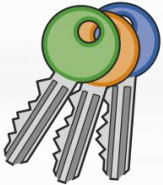
Financing Basics

Keys to Obtain Financing

A Workshop Exclusively for Small Business Owners and Their Team
Bottom Line – We Love Small Business™


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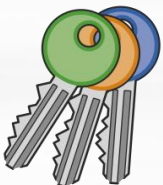


Finance Basics

- Why they are so important and what a bank is looking for?
- Better Conversation with Banker
- What the bank will look for – Documents
- Understanding your Financial Statements
- KPI's the Bank is looking at
- Additional information bank will request to access ability to repay debt
- Where to start?


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Finance Basics

3 Key Elements to Assessing a Borrower's Financial Position

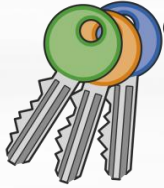
- Cash Flow** (Real Estate & Bus.)
- Collateral** (Real Estate)
- Management** (Real Estate & Bus.)


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Finance Basics

3 Key Elements to Assessing a Borrower's Financial Position



Cash Flow:

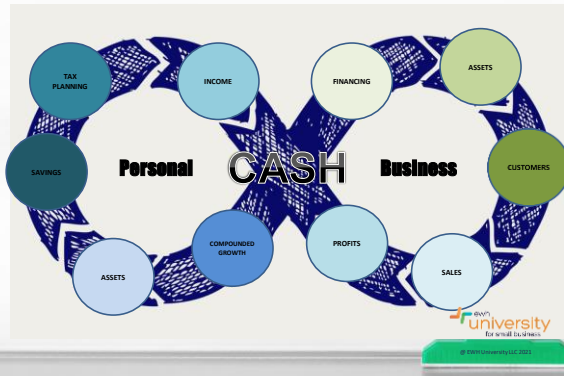
- Business cash flow
- Global cash flow



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The Cash Flow Track



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The 5 Critical Accounting Mistakes

- Mistake # 1:** Mismanaging the company checkbook
- Mistake # 2:** Not having an accounting system in place
- Mistake # 3:** Not understanding your profit and cash position
- Mistake # 4:** Unintentional use of credit: Mixing business purchases with personal purchases
- Mistake # 5:** Lack of an Audit Trail for receipts and invoices



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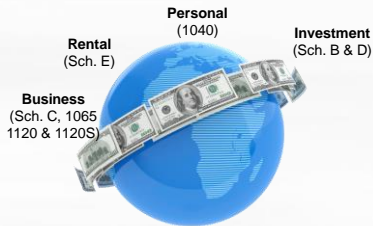
Implementing a Numbers Based Strategy

Management, Leadership and Operations



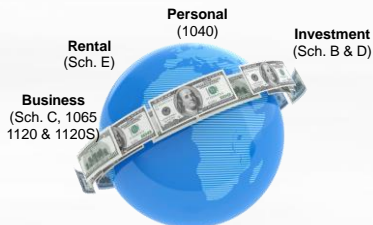
7

What Your Bank Will Ask For



8

4 Types of Income That Makes Up Global Cash Flow




9

Balance Sheet
As of...

| | |
|---------------|---------|
| Cash | "Stuff" |
| A/R & Inv | |
| Equipment | |
| A/P / CC | Owe |
| LOC | |
| N/P | |
| Investment | Own |
| Distributions | |
| Profits | |

Profit & Loss
Month of...

| |
|-----------------|
| Sales |
| - Cost of Sales |
| - Operating |
| - Other Rev/Exp |
| Profits |



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Balance Sheet

| | |
|---------|-----|
| "Stuff" | 100 |
| Owe | 30 |
| Own | 70 |

Profit & Loss

| |
|-------------|
| Profitable? |
|-------------|



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Balance Sheet


| |
|---------|
| "Stuff" |
| Owe |
| Own |

Profit & Loss

| |
|-------------|
| Profitable? |
|-------------|

Cash Flow Statement

| |
|---------|
| Where's |
| the |
| CASH? |



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Balance Sheet

| |
|---------|
| "Stuff" |
| Owe |
| Own |

Profit & Loss

| |
|-------------|
| Profitable? |
| |

Cash Flow Statement
Month of...

| |
|-----------|
| Operating |
| Investing |
| Financing |

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Balance Sheet
As of...

| | |
|---------------|---------|
| Cash | "Stuff" |
| A/R & Inv | |
| Equipment | |
| A/P / CC - ST | Owe |
| LOC - ST | |
| N/P - LT | |
| Investment | Own |
| Distributions | |
| Profits | |

Understanding EBITDA
(Earnings before Interest, Taxes, Depr. and Amort.)

Profit & Loss
Month of...

| |
|--------------------|
| Sales |
| - Cost of Sales |
| - Operating |
| EBITDA |
| - Interest |
| - Taxes |
| - Depreciation |
| - Amortization |
| Profits after ITDA |

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Loan Payments

Balance Sheet

| | |
|------|----------|
| Cash | \$10,000 |
| N/P | \$10,000 |

Are loans received income?
Only interest is deductible, principal is not deductible

Profit & Loss

| | |
|----------|--------|
| Interest | -\$500 |
| Profits | |

Borrow over 2 years @ 5% interest
First year principal is \$5,000
Interest is \$500
Total payment is \$5,500

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Depreciation Expense

Balance Sheet

| | |
|-----------|---------|
| Equipment | \$6,000 |
| | |
| | |

Good for 5 years
How much each year?

Profit & Loss

| | |
|----------------|----------------------|
| Sales | \$10,000 |
| Depr. | -\$6,000 |
| PROFITS | <input type="text"/> |

Restaurant has:
• \$10,000 sales /month
• \$120,000 sales / year
• \$600,000 in sales over 5 years
Purpose of Income Statement

If expensing \$6,000 in 1 month, is that an accurate reflection ?



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Depreciation Expense

Balance Sheet

| | |
|-----------|---------|
| Equipment | \$6,000 |
| | |
| | |

Good for 5 years
How much each year?

Profit & Loss

| | |
|----------------|----------------------|
| Sales | \$120,000 |
| Depr. | -\$1,200 |
| PROFITS | <input type="text"/> |

Restaurant has:
• \$10,000 sales /month
• \$120,000 sales / year
• \$600,000 in sales over 5 years
Purpose of Income Statement

If expensing \$6,000 in 1 month, is that an accurate reflection ?



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Depreciation Expense

Balance Sheet

| | |
|-----------|---------|
| Equipment | \$6,000 |
| | |
| | |

Good for 5 years
How much each year?

Profit & Loss

| | |
|----------------|----------------------|
| Sales | \$10,000 |
| Depr. | -\$100 |
| PROFITS | <input type="text"/> |

Restaurant has:
• \$10,000 sales /month
• \$120,000 sales / year
• \$600,000 in sales over 5 years
Purpose of Income Statement

If expensing \$6,000 in 1 month, is that an accurate reflection ?



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Balance Sheet
As of...

| | | |
|---------------|-----------|---------|
| Cash | A/R & Inv | "Stuff" |
| Equip | | |
| A/P / CC - ST | | Owe |
| LOC - ST | | |
| N/P - LT | | |
| Investment | | Own |
| Distributions | | |
| Profits | | |

Understanding EBITDA
(Earnings before Interest, Taxes, Depr. and Amort.)

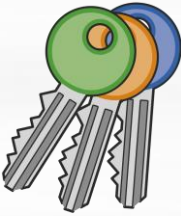
Profit & Loss
Month of...

| | |
|---------------------------|--|
| Sales | |
| - Cost of Sales | |
| - Operating | |
| EBITDA | |
| - Interest | |
| - Taxes | |
| - Depreciation | |
| - Amortization | |
| Profits after ITDA | |

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Finance Basics
3 Key Elements to Assessing a Borrower's Financial Position



Cash Flow (Real Estate & Bus.)

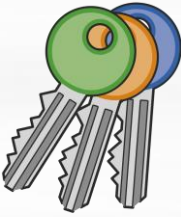
Collateral (Real Estate)

Management (Real Estate & Bus.)

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Finance Basics
3 Key Elements to Assessing a Borrower's Financial Position



Cash Flow:

- Business cash flow
- Global cash flow

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4 Types of Income That Makes Up Global Cash Flow



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4 Types of Income That Make Up Global Cash Flow

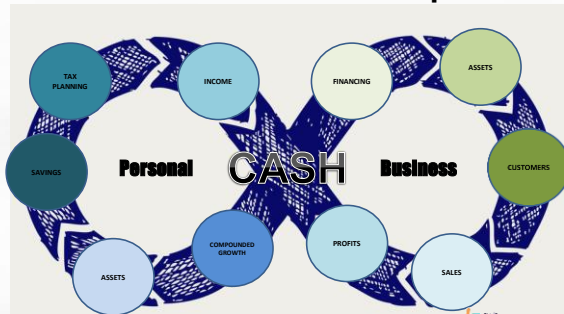
1. Personal
2. Business
3. Rental
4. Investment



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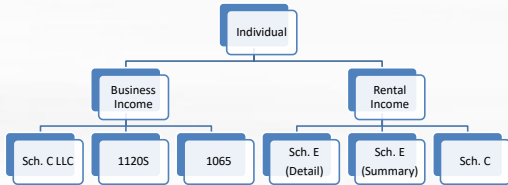
The Cash Flow Loop



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A Borrower's DNA



What forms do you need to provide?

Do you have Financial Statements and not just tax returns?

Who is do the reporting and accounting?

Who is guaranteeing the loan? Do you need their information?



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More Complex Borrower's DNA



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What does the IRS care about?



Earnings (Profit)

Are earnings a fact or a theory?
Collecting tax revenue

What does the bank care about?



Earnings

What is the PREDICTABILITY and SUSTAINABILITY of the EARNINGS and CASH FLOW of this business?

What does a business owner care about?



Earnings

Least amount for tax purposes
Most amount for banking purposes


Maximizing Cash Flow



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Finance Basics
 3 main metrics a bank will look at



1. Collateral
2. Debt Service Coverage Ratio

$$\frac{\text{Cash Flow}}{\text{Yearly Debt Service}}$$
3. Loan to Value

$$\frac{\text{Loan}}{\text{Value of Property}}$$

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Finance Basics




Debt Service Coverage Ratio

$$\frac{\text{Cash Flow}}{\text{Yearly Debt Service}}$$

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Finance Basics



Debt Service Coverage Ratio

$$\frac{\text{Cash Flow}}{\text{Yearly Debt Service}}$$

Banks have different criteria for what is an appropriate DSCR, based on their appetite for risk and what they specialize in.
 1.25% DSCR may be a general rule of thumb.
 It depends on... *example*

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Finance Basics

1.25% DSCR can be a general rule of thumb.
But still depends on...

For example, if business relies heavily on equipment, then higher DSCR

How DSCR is calculated can vary by bank.
Generally is: $\frac{EBITDA_{OR}}{EBITDA - Div}$

| DSCR | DSCR |
|--|---------------------------|
| $\frac{Cash\ Flow}{Yearly\ Debt\ Service}$ | $\frac{133,000}{100,000}$ |

In this example there is only \$33,000 to cover other expenses.
The question becomes, what is enough wiggle room?

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Finance Basics

Global DSCR

Personal, Business, Rental, Investment Income

DSCR analysis will also depend if:

- Business DSCR
- Global DSCR

| Global DSCR | Global DSCR |
|--|--------------------------|
| $\frac{Cash\ Flow}{Yearly\ Debt\ Service}$ | $\frac{120,000}{80,000}$ |

This example the DSCR is 1.5x which may look good, but represents only \$40,000 to support a family's living expenses, plus all the business's capital expenditure needs.

The question becomes, what is enough wiggle room?

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Finance Basics

Business DSCR

DSCR analysis will also depend if:

- Business DSCR
- Global DSCR

| Global DSCR | Global DSCR |
|--|--------------------------|
| $\frac{Cash\ Flow}{Yearly\ Debt\ Service}$ | $\frac{120,000}{80,000}$ |

This example the DSCR is 1.5x which may look good, but represents only \$40,000 to support a family's living expenses, plus all the business's capital expenditure needs.

The question becomes, what is enough wiggle room?

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Finance Basics



Loan to Value Ratio

$$\frac{\text{Loan}}{\text{Value of Property}} = \frac{75,000}{100,000} = 75\%$$

What is an acceptable loan to value ratio will vary by bank, and by type of loan (what is used for).



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Key KPI Summary



- Debt Service Coverage Ratio (Cashflow)
- Loan to Value (Collateral)
- Current Ratio
- Working Capital
- Ability to repay based on existing obligations, commitment, current and expected expenses.
- Equity Position: Leaving Cash in or taking out?
- Personal Financials: Global Cash Flow & Position, Cash, Assets for collateral, all source of cashflow and resources.
- Net worth, investing, lifestyle



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Current Ratio

| | |
|---|----------|
| Total Current Assets (Cash, A/R, Inv) | \$10,000 |
| Total Current Liabilities (A/P, CC, 1/P, Short Term Portion N/P) | \$10,000 |

Profit & Loss

| |
|--|
| |
| |

Current Ratio = 1

$$\frac{10,000}{10,000}$$



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Working Capital

| Balance Sheet | |
|---|----------|
| Total Current Assets (Cash, A/R, Inv) | \$10,000 |
| Total Current Liabilities (A/P, CC, T/P, Short Term Portion N/P) | \$10,000 |

| Profit & Loss | |
|---------------|--|
| | |
| | |

Working Capital= 0
 10,000
 -10,000
 0



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Ability to Repay Debt

| Balance Sheet | |
|---|------|
| Total Current Liabilities (A/P, CC, T/P, Short Term Portion N/P) | \$10 |
| Total Long-Term Liabilities | \$90 |

| Profit & Loss | |
|---------------|------|
| | |
| PROFITS | \$10 |



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Balance Sheet

| | |
|--|-----|
| "Stuff" A/R as Collateral old or new "Stuff" | 100 |
| Owe | 30 |
| Own Equity Strong Profit to Pull Out | 70 |

| Profit & Loss | |
|---------------|--|
| Profitable? | |



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Balance Sheet

| | |
|---------|-----|
| "Stuff" | 100 |
| Owe | 95 |
| Own | 5 |

Profit & Loss

| |
|-------------|
| Profitable? |
| ○ |



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Balance Sheet

| | |
|---------|-----|
| "Stuff" | 100 |
| Owe | 105 |
| Own | -5 |

Profit & Loss

| |
|---|
| |
| ○ |



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Personal Finance Basics
Two Aspects of Creating Wealth


1. Making Money- generating money, creating cash flow.
 - ✓ Adding and creating value
 - ✓ Leveraging that value
 - ✓ Skill set, specialized knowledge
2. Managing Money
 - ✓ Not how much you make, it's how much you keep

EWN Story
Most business owners don't know when to cash in their chips and go home.
Know when to take the money off the table.
The list of 20 people that you thought would have...

Making Money

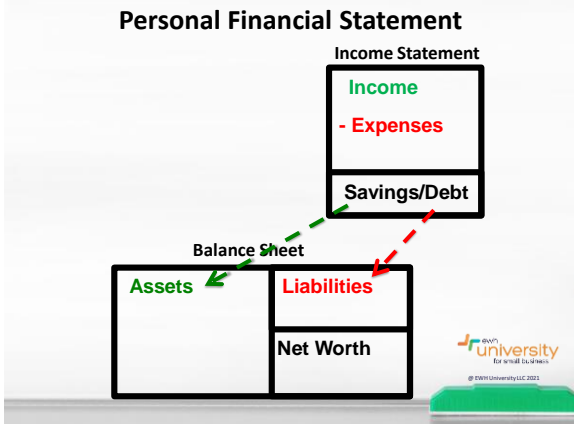


Managing Money

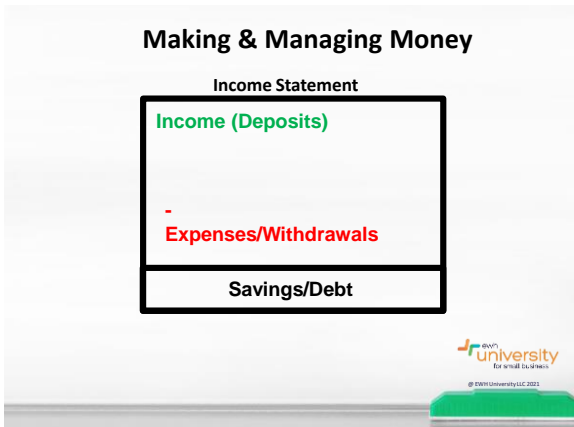


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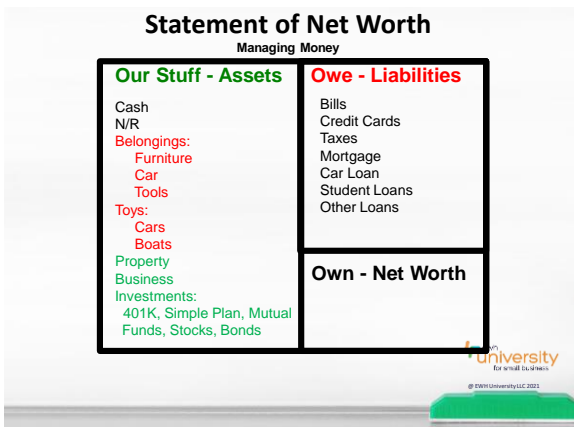
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Going Forward into Your Business

Secret # 9: Grow S.M.A.R.T.E.E.R. by Setting Written Goals

Where to start...

- Gather information for bank
- Talk to accountant for any needed information
- Helps to have a relationship with a Bank/Banker

