Finance SMB Growth

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- The Three “Rs” of Business Borrowing
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Capital Options for SMBs

Capital for Business Growth typically available to SMBs:

- Equity
- Debt/Equity, Mezzanine Finance
- Debt
- Organic, NOI reinvestment in the company

This discussion will focus on options for Debt Financing and best practices for assessing appropriate Debt facility(ies) to achieve business goals.

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Borrowing Three "Rs"

Three primary considerations in making a business borrowing decision, three "Rs":

- **R**easons to borrow –
  - Expansion:
    - New Markets
    - New Facilities
    - New Products
  - Effectiveness:
    - Purchasing Power
    - Production Efficiency
    - Cash flow management
    - Equity preservation
  - Overcome obstacles and cure problems that are impeding growth.

- **R**ight borrowing facility to meet the objective or business need; not all debt facilities are the same and comparing them on an APR basis only is a mistake.

- **R**esults, does the expense of Borrowing provide sufficient return for the business. Debt Expense vs. Return, and Debt Coverage impact on cash flow.

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Best Fit, Types of Borrowing by Term & Use

Loan or financing should tie to the utilization or value of the asset and or expense over time and have an appropriate Term.

Long-term Loan – typically a term of 7 or more years

- A long-term loan is best used when funding an asset that will appreciate over time. Business expansion through acquisition of a competitor, adding a new location. Capital assets such as real estate are common uses for long term loans.

Mid-term Loan or Financing - terms ranging from 1 to 7 years

- Mid-term financing should be considered when the cash outlay is too large and could negatively impact working capital in the near term. An example of this is equipment financing over time, this preserves capital and allows for the payment for the asset over its useful life.

Short-term Facilities – terms ranging from days to 1 year

- The benefit of Short-term borrowing is that as repayment is made, borrowing availability may be returned. Revolving facilities are ideal for recurring business needs such as operational cash flow while awaiting customer payments, acquisition of product, seasonality, etc.
- Short-term facilities can also be used to acquire assets in advance of the qualifying for Longer – term financing.

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Best Fit, Types of Borrowing by Term & Use

<u>Loan Types, Collateralization, and Expense.</u>

Long-term Loan – typically a term of 7 or more years

- Amortizing Term loan
- Asset backed, and demonstrated ability to repay (Debt Coverage Ratio)
- Lowest interest rate, as little as mid-single digit depending on Borrower strength and collateral

Mid-term Loan or Financing - terms ranging from 1 to 7 years

- Amortizing Term Loan, Equipment Lease/Finance, asset refinance, debt refinance, and mezzanine loans.
- Asset backed with collateral such as Real Estate, Accounts Receivable, Machinery & Equipment, Inventory, Intellectual Property, Equity (established companies)
- Mid-point interest rate, high single digit to low 20's % APR. Be prepared to pay due diligence and other upfront fees.

Short-term Facilities – terms ranging from days to 1 year

- Revolving and renewable facilities based on Accounts Receivable, Purchase Orders, and Inventory, asset backed Bridge loans, and Short-term loans and Advances including Revenue Based Loans and Merchant Cash Advance
- Asset backed, Revenue and Projected Revenue.
- High APR varied based on the collateral.

Choosing the right financing tool is key to achieving goals and providing ongoing availability of debt capital.

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Best Fit, Borrowing Strategy

Creating a Capital Strategy including a borrowing plan that supports growth plans near and longer term (1-5 years) should be undertaken by all business operators.

- Detail capital needs that support the growth plan.
- Does the projected revenue provide sufficient net operating income to cover debt repayment.
- Assess current debt outstanding and the assets encumbered, are there any blanket liens in place?
  - Current debt that may preclude additional/other types of borrowing.
- Establish credit and debt that best leverages current and projected assets, lien holder priority.
- Review needs and availability regularly.
- Engage a business finance expert as needed, someone well versed in a broad array of lending options.

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About Aurous Financial

Aurous Financial is a Short-term lender providing capital on behalf of our clients for the purchase of presold goods to an end buyer, Purchase Order finance (PO).

Aurous provides trade capital specifically for sold goods, POs from credit worthy end buyers, with transactions ranging from $50,000 to $10 million. Aurous enables wholesalers, distributors and manufacturers (US based) to seek and secure more orders, and larger orders, with our end to end trade finance solution.

Aurous funds can be used for:

- Finished consumer goods
- Commodities
- Production supply and components for US manufacturers
- Business Services

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Questions

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