



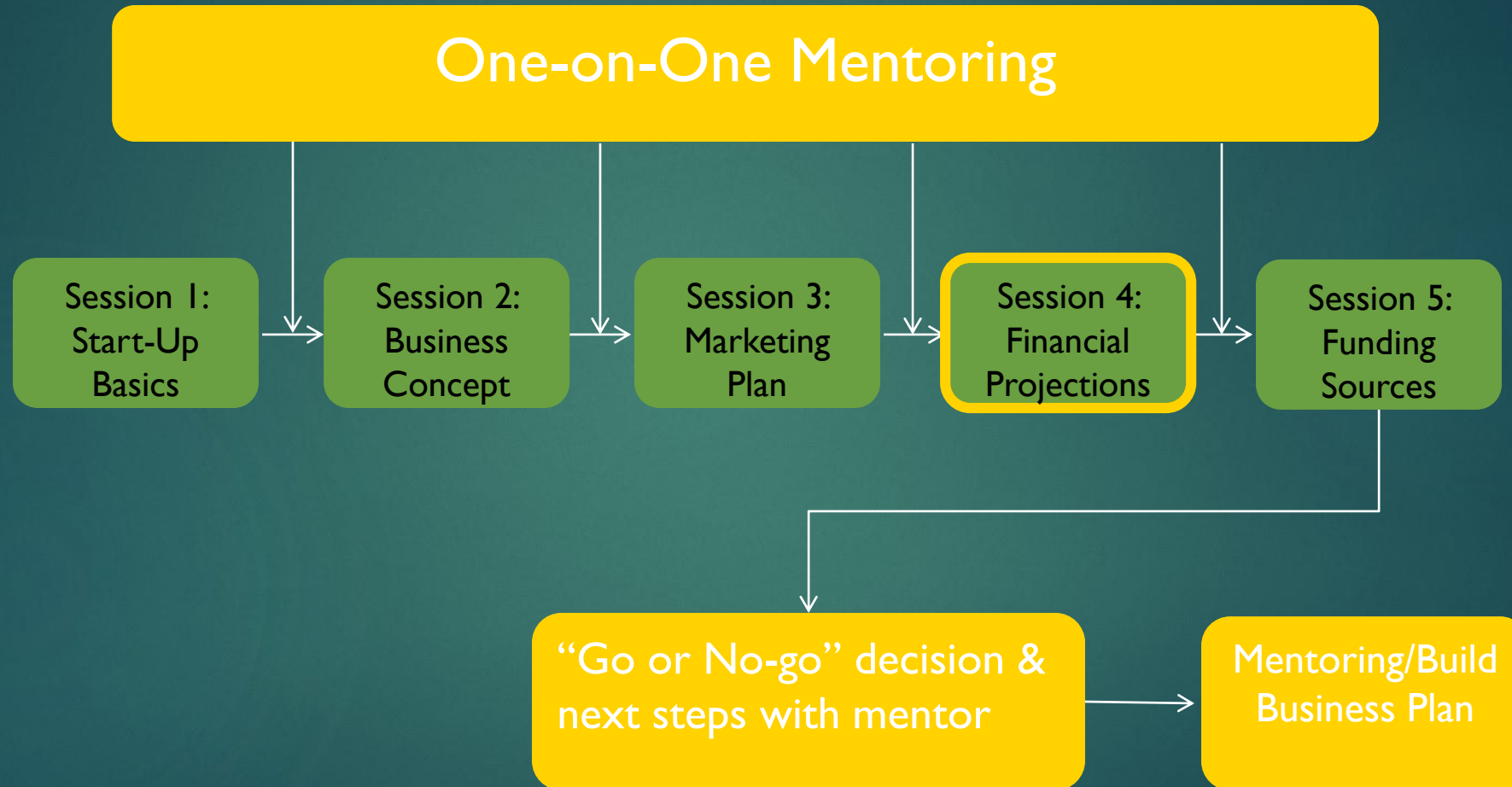
Financing for Small Business

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BUSINESS BANKER

FIRST TENNESSEE BANK

Process Roadmap





- ▶ Importance of financial planning
- ▶ Building your financial model
- ▶ Understanding financial statements:
 - ▶ **Income statement**
 - ▶ **Cash flow statement**
 - ▶ **Balance sheet**

Benefits of Financial Planning & Goal Setting



- ▶ Match business concept with personal income goals
- ▶ Gain a better understanding of financial risks and rewards
- ▶ Identify early development and start-up costs, ongoing operations expenses and funds needed to finance the business
- ▶ Have a plan to help guide business decisions and monitor results

Components of Your Financial Plan

- 1. Required Startup Funds**
2. Salaries and Wages
3. Fixed Operating Expenses
4. Projected Sales Forecast
5. Cash Receipts and Disbursements

Understanding Financial Statements

- **Income Statement / Breakeven Analysis**
 - Gross profit margin and overhead expense management
- **Balance Sheet**
 - A/R, Inventory & A/P management
- **Cash Flow Statement**
 - Funds management



Why 3 Financial Statements?



1. Income statement

- How long to reach profitability?
- Do I make a profit or loss?

2. Cash flow statement

- Do I have enough sources of funds to operate, sustain & grow the business?

3. Balance sheet

- What are my assets & liabilities?
- How much am I worth?

Income and Expense Statement (P&L) and Break Even Analysis

Income Statement (Profit & Loss)			
	2017	2016	2015
Sales	\$ 1,000,000	\$ 1,250,000	\$ 750,000
<u>Cost of Goods</u>	<u>\$ 700,000</u>	<u>\$ 875,000</u>	<u>\$ 525,000</u>
Gross Profit	\$ 300,000	\$ 375,000	\$ 225,000
Operating Exp.			
Payroll	\$ 225,000	\$ 225,000	\$ 225,000
Rent	\$ 30,000	\$ 30,000	\$ 30,000
Utilities	\$ 10,000	\$ 10,000	\$ 10,000
Interest	\$ 10,000	\$ 10,000	\$ 10,000
<u>Depreciation</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>
Total Expenses	\$300,000	\$300,000	\$300,000
Net Income	\$ -	\$ 75,000.00	\$ (75,000.00)

Balance Sheet

Balance Sheet		
12/31/2017		
Current Assets		
Cash		\$ 50,000
Accounts Receivable		\$ 75,000
<u>Inventory</u>	-	<u>\$ 40,000</u>
Total Current Assets		\$ 165,000
Fixed Assets		
Building		\$ 500,000
<u>Depreciation</u>	-	<u>\$ 250,000</u>
Net Fixed Assets		\$ 250,000
Other Assets		
Goodwill		\$ 200,000
Total Assets		\$ 615,000
Current Liabilities		
Accounts Payable		\$ 50,000
Line of credit		\$ 25,000
<u>Credit Cards</u>		<u>\$ 5,000</u>
Total Current Liabilities		\$ 80,000
Long Term Debt		
Real Estate Loan		\$ 300,000
Total Liabilities		\$ 380,000
Net Equity		\$ 235,000

Cash Flow

Business Cash Flow Summary	2017	2016	2015
Net income -	\$0	\$75,000	(\$75,000)
+ Depreciation	\$25,000	\$25,000	\$25,000
+ Interest Expense	\$10,000	\$10,000	\$10,000
Cash Available for Debt Service	\$35,000	\$110,000	(\$40,000)
Debt Service Requirements	\$31,678	\$31,678	\$31,678
Surplus Cash Flow	\$3,322	\$78,322	(\$71,678)
Debt Service Coverage Ratio	1.10	3.47	-1.26

Real Estate Loan	
New Term	\$ 400,000
Interest Rate	5.00%
Years	20
Monthly Pay.	\$ 2,640
Annual	\$ 31,678

Banks typically looks for a 1.25x Debt service coverage ratio

Cash Flow including personal income

	2017	2016	2015
Salary	\$100,000	\$100,000	\$100,000
- Income Taxes	\$15,000	\$15,000	\$15,000
- Living Expenses (30% of Net)	\$30,000	\$30,000	\$30,000
Net Personal Cash Flow Available for Debt Service	\$55,000	\$55,000	\$55,000
Uses of Cash			
Annual Total Mortgage Payments	\$14,400	\$14,400	\$14,400
Annual Car Note	\$6,000	\$6,000	\$6,000
Total Personal Uses	\$ 20,400	\$ 20,400	\$ 20,400
Surplus Personal Cash Flow	\$34,600	\$34,600	\$34,600
Global Debt Service Capacity			
Global Cash Flow Available for Debt Service	\$90,000	\$165,000	\$15,000
Global Debt Service Requirements	\$52,078	\$52,078	\$52,078
Global Surplus Cash Flow	\$37,922	\$112,922	(\$37,078)
Global Debt Service Coverage Ratio (GDSCR)	1.73	3.17	0.29

Obtaining financing through a bank

- ▶ Conventional bank financing
 - ▶ Four core of banking: Profitability, liquidity, leverage, and cash flow
- ▶ Small Business Administration

Difference between conventional financing vs SBA

Conventional financing

- ▶ Bank relies heavily on borrower having strong personal liquidity
- ▶ Shorter terms on loan
- ▶ There needs to be good collateral for the bank
- ▶ Higher equity injection
- ▶ Lower rate and less fees

Small business Administration (SBA) Financing

- Government guarantees a portion of the loan
- Can get longer maturities and amortizations
- Less collateral
- Lower down payment
- Higher rate and more fees

Obtaining financing through a bank

What does the bank look for?

- ▶ Industry Experience – owning and/or operating a business with the industry of start up company
- ▶ Good credit – FTB's bank minimum is 670
- ▶ Equity injections – expect to inject up to 20% into the start up
- ▶ Prepare a business plan with goals and objectives
- ▶ Create projections – these should be based on expected sales and cost of starting up the business
 - ▶ Will need first three years
 - ▶ Also note the assumptions made for the projections

Small business administration

- ▶ Expansion/renovation or leasehold improvements
- ▶ Purchase land and buildings
- ▶ Purchase equipment, machinery, or furniture/fixtures
- ▶ Working capital or inventory
- ▶ Start-ups (equity at least 20% per FTB policy)
- ▶ Acquisitions (100% change in ownership)
- ▶ Refinance business debt (improve cash flow by 10%)

Find an investor

- ▶ Partnering with someone with the capital to self finance the entire start up
- ▶ Giving up ownership in your company to find an investor/partner

Closing remarks

- ▶ Make sure that you have a well through out business plan
- ▶ Understand your financial plan and projections
- ▶ If funding is needed, work to find a way to access capital
- ▶ Align yourself with strong centers of influence such as attorney's, CPA's, bankers, people with industry experience, etc...