

The use of proper leverage in a business has been an important component of the growth of American commerce for the past 60 years. Leverage is a fancy way of saying “debt” or “borrowed capital.” It is referred to as leverage because it acts as a lever in providing a higher rate of return than equity capital to the shareholders. When companies successfully borrow and repay capital they have “levered” up the value of their company through the use of debt. When companies raise capital through the sale of equity they dilute the shareholders through the sale of equity.

Business Finance & Development has assisted clients in raising over \$100 million through its investment banking and financial advisory services. Business Finance & Development specializes in the use of bank debt to achieve company goals and is a national expert in the use of government guaranteed lending programs to improve the borrower’s cash flow.

Borrowed capital is a proven and effective method of acquiring another company or in providing capital from existing assets of the company (often referred to as refinancing).

We often see business owners looking to make an acquisition that don’t understand the borrowing power of the assets within the target company, or how to best structure the loan to provide maximum flexibility in the repayment of the debt. This even includes the financing of goodwill in an acquisition when the purchase price is greater than the value of the hard assets of the target.

Debt refinancing can come about from several circumstances. Many companies have facilities and equipment whose depreciated value is significantly less than fair market. This scenario creates an excellent refinancing opportunity, by allowing the borrower to “unlock” the collateral value of assets hidden in the company for years and years.

Another opportunity occurs as companies grow and improve their cash flow, thus providing a less riskier borrowing scenario than was present when they obtained their debt. It is not often that you will find a lender who calls the borrower to tell them they should renegotiate their loan—get a lower interest rate, longer terms of repayment, or even a release of personal guarantee or other peripheral collateral.

As a partner at Business Finance & Development, I often meet clients who have not thought about how to optimize their capital structure. By optimizing their capital structure, I

The Program at a Glance

- Owner equity/initial investment as low as 15% of the total project cost
- Loan based on strong historical cash flow
- Blended loan terms up to 25 years depending on asset mix
- Loans from \$250,000 to \$2 million
- Working capital financing with most business acquisition loans

Eligibility Requirements

Most for-profit companies are eligible for SBA 7(a) Loan financing. Following are some of the qualifications:

- Retail and service businesses with receipts (three-year average) not exceeding \$6 million to \$20 million, depending on the industry
- Wholesale business with up to 100 employees regardless of sales volume
- Manufacturers with employees up to 500 depending on the industry, regardless of sales volume

Like other business loans, the borrower is required to provide collateral and show adequate cash flow and an appropriate debt/net worth ratio.

mean, how much debt and how much equity should be used to balance the needs for growth and risk. One of the first steps we take is to understand the history of our client’s company—the good and the bad—to determine the client’s strengths and weaknesses. In developing a lasting relationship with our clients, we must first know how they think and what filters they use to process information in their company and make decisions.

Once we understand the intangibles, we go to work on the financial analysis component of the equation: We look at historical and projected financial data; we question the assumptions used in the projections; and we help our client think carefully and thoroughly through their plan.

As the saying goes, the numbers don’t lie! Our philosophy is to quantify as much as we can about the past and the future and then do a thorough analysis of the data.

Next, the real fun begins! We have a passion for working side by side with our clients to evaluate several alternatives. There are usually many different directions a company can take, and it is our job to help the owner match up their risk profile with the decision that best fits that risk profile.