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IFA
INTERNATIONAL FRANCHISE ASSOCIATION

Growth Capital to Move to the Next Level:

Funding Options and Best Practices

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Growth Capital to Move the Next Level: Funding Options and Best Practices

Lendio

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MY BACKGROUND

- First significant role was managing 40 master franchisees in 45 countries with a 35 year old brand
- Led operations in home services with 300+ units
- Developed younger system from 12 to 30 units
- CFO/GM for supply chain SaaS application
- Currently: EVP/GM, Lendio; marketplace for small business loans

FRANCHISING ROOTS REVOLVED AROUND FINANCING

MODERN FRANCHISING IN THE US

- **1898:** GM sells first franchise to William Metzger in Detroit
- This solved distribution challenges for auto manufacturers but now gasoline also needed to be distributed to keep up with demand for new automobiles
- Lacking the capital to acquire the real estate and adequate distribution system required for expansion, oil companies turned to franchised locations around the same time
- Many industries followed suit

CASH IS KING

MY EXPERIENCE as a fledgling franchisor

DEBT VS EQUITY FINANCING

DEBT VS EQUITY FINANCING

EQUITY financing is the process of raising capital through the sale of shares in a company

DEBT Financing involves borrowing money and repaying it with interest

DEBT VS EQUITY FINANCING

- Debt is usually less expensive than giving up equity. - When you give up equity of your business you are giving a piece of your business away forever
- Debt can be cheaper than your opportunity cost. - As long as the return is higher than the cost of debt.
- Paying interest on debt reduces tax burden. - Cost of interest reduces your taxable profit and, therefore reduces your tax expense.
- Debt encourages discipline

https://www-entrepreneur-com.cdn.ampproject.org/c/s/www.entrepreneur.com/amphtml/240191
https://www.investopedia.com/ask/answers/05/debtcheaperthanequity.asp

TRADITIONAL VS ALTERNATIVE LENDING

TRADITIONAL VS ALTERNATIVE

- TRADITIONAL
  Banks & Credit Unions
- Risk Averse
- Low Rates
- Long Approval Process

ALTERNATIVE

- Online Marketplaces
- Less Risk Averse
- Higher Rates
- Quicker Approval Process

GROWTH PRODUCTS

PRODUCT OPTIONS

- Line of Credit
- Term Loan
- Credit Card
- SBA Loan
- Short Term Loan
- Equipment Financing
- Commercial Mortgage
- Merchant Cash Advance
- Accounts Receivable Financing

SBA LOANS

The US Small Business Administration (SBA) is a federal agency built solely for the purpose of helping small businesses get the funding they need—especially in times of economic hardship caused by events like the coronavirus (COVID-19) pandemic.

- The 7(a) is one of the most flexible SBA loans. You can use it to:
  - Buy land
  - Cover construction costs
  - Buy or expand an existing business
  - Refinance your existing debt
  - Buy machinery, furniture, supplies, or materials

SBA 7(a) SBA LOANS

- Loans of less than $25,000 may not require collateral but higher loan amounts likely will. For loans of $350,000 or higher, the SBA requires your lender to ask for the maximum possible amount of collateral to limit risk of default. If you don’t have enough business collateral to cover it, that’s okay – many forms of personal collateral will also help you qualify.
- If you’re looking for a large amount of money, you can get a 7(a) loan for up to $5 million if you meet all the qualification requirements.

SBA 504

Can be a bit more complicated than 7(a)s. Because you would use a 504 to fund a project, a thorough examination of your project costs will come into play. When your loan is funded, the lender will initially cover 50% of your costs and the SBA will cover 40% – that means you're responsible for covering at least 10% right off the bat. You'll also be required to personally guarantee at least 20% of the loan.

SBA 504

You must use your SBA 504 loan to finance fixed assets, although some soft costs can also be included. Examples of qualifying projects are:

1. Buy an existing building
2. Build a new facility or renovate an existing facility
3. Buy land or make land improvements such as grading, landscaping, and adding parking lots
4. Buy long-term machinery
5. Refinance debt incurred through the expansion of your business or renovation of your facilities or equipment

SBA 504

There are some cool perks to the SBA 504 loan. For example, you'll benefit from 90% financing, longer amortizations, no balloon payments, and fixed interest rates.

- To qualify for an SBA 504 loan, your business must have a tangible net worth of more than $15 million and an average net income of $5 million or less for the two years prior to your application.

BUSINESS LINE OF CREDIT

Want flexible financing? Then you want a business line of credit.

A business line of credit is a financial safety net for your business. It’s also one of the most flexible forms of financing. You can use it for buying equipment, hiring staff, increasing inventory, adding a second location, paying invoices, installing a cappuccino machine, and more.

And because a line of credit is revolving, you can use it as many times as you want. As soon as you repay what you’ve used, those funds become available to you again.

BUSINESS LINE OF CREDIT

You pay interest on the funds you use, not the whole thing:

One of the coolest things about a business line of credit is that you only pay interest on the funds you use, not the full amount. For example, if you’re approved for a $40,000 business line of credit and you use $20,000 for office upgrades, you’ll just pay interest on that $20,000. This could save you a bundle in interest.

BUSINESS CREDIT CARD

Business credit cards offer a sweet spot between personal credit cards and corporate credit cards. Specifically designed for small businesses, business credit cards provide a flexible, convenient way for your small business to make purchases.

Often, you'll benefit from a 0% introductory rate and a rewards program while providing your small business with a financial safety net—all the security of a loan with less paperwork and a smaller commitment.

SHORT TERM LOANS

A short term loan is like the Swiss Army Knife of loans – it’s handy, flexible, and able to get you out of a bind. You can use it to cover unexpected costs, survive a slump, finance a short term project, or even capitalize on a new business opportunity. It’s definitely the loan you want in your back pocket.

BUSINESS TERM LOANS

A term loan provides a borrower with a lump sum up front that is then repaid at regular intervals over a set amount of time, also referred to as the loan term. Interest rates on term loans can be fixed or floating and can start as low as 6%.

Repayment: A business term loan typically comes with a fixed interest rate or flat fee. That means your payments will stay constant over the lifetime of your loan term (1–5 years). These terms enable you to easily calculate how much financing your business can afford to ensure you keep up with your monthly payments until the loan is repaid.

MERCHANT CASH ADVANCE/ACH

A merchant cash advance allows a business to borrow against its future earnings. Unlike other business loans, collateral is not typically required to start a merchant cash advance, which means you can receive funds in as little as 24 hours.

Repayment: Your cash advance is repaid based on your business's daily sales. Depending on the way your cash advance is financed, your lender will either take a daily percentage of credit card sales or a percentage of the total daily business sales.

EQUIPMENT FINANCING

With amounts available up to $5,000,000, you can use an equipment loan to purchase any kind of equipment your business might need.

- Funds in as little as 24 hours
- Rates as low as 7.5%
- 1+ years time in business
- $50,000+ in annual revenue
- 650+ Credit

COMMERCIAL MORTGAGE

This financing option is an asset-based loan, so the amount and rate of your commercial mortgage will be based on your credit and the value of the property you'll be using as collateral. You can expect amounts ranging from $250,000 to $5,000,000. The interest rates are usually on the lower end, starting around 4.25%, with terms in the neighborhood of 20-25 years. These terms make it an affordable type of financing that will save you a hefty sum over the lifetime of the loan.

ACCOUNTS RECEIVABLE FINANCING

Accounts receivable financing (sometimes referred to as factoring) is tailor-made for the times you need money but have money held up by unpaid invoices. With this type of financing, you'll receive the money you need by selling your purchase orders or receivables. The amounts vary, but you can often get up to 80% of your receivables. The money arrives in as little as 3 days, and the loan term can last up to a year. As for the factor rate, it's as low as 5%.

- No collateral
- Less than perfect credit

CASE STUDY

CLEANING FRANCHISOR

A residential cleaning franchisor needed to hire 10+ team members to keep up with their rapid growth. The main office served as the answering and scheduling agent for the franchisees. The sought options through traditional means but were unsuccessful in securing a loan so they pursued alternative lending options.

CLEANING FRANCHISOR

Credit: 850

Time in Business: >15 years

Annual Revenue: $4.8 Million

Monthly Sales: >$500k

Through Lendio they secured:

- Two ACH facilities for $250k
- A LOC for $50k they have used multiple times over years

THE APPLICATION PROCESS

UNDERSTANDING UNDERWRITING

Most important criteria used:

- Industry Type
- Time in Business
- Personal Credit
- Business Cash Flow
- Business Credit

WHAT YOU NEED TO APPLY

1. FDD
    a. Item 19
    b. Financials
2. Tax Returns
3. Bank Statements
4. Balance Sheet
5. Profit and Loss Statement
6. Cash Flow Statement
7. Licenses
8. Financial Projections and Business Plans

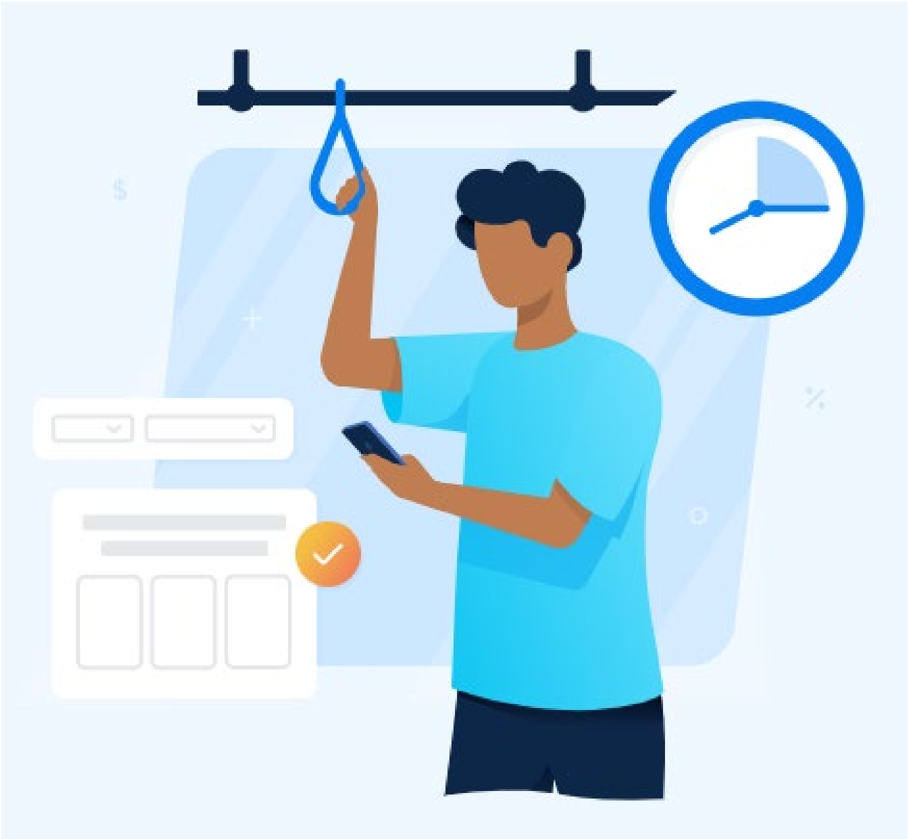
DENIALS

REASONS FOR REJECTION

- Incomplete Application
  - Incomplete sections
  - Missing documentation
  - Erroneous information

- Insufficient Business Data
  - Business is too new

- Unimpressive Business Plan
  - Failure to clearly articulate how you intend to utilize the loan



REASONS FOR REJECTION CONTINUED

FINDING A LENDING PARTNER

FINDING A GOOD PARTNER

Three things to consider

1. Traditional vs Alternative
2. Do they have experience working with franchisors?
3. What is their product offering?

QUESTIONS?

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