



THE ALTERNATIVE BOARD®

Change Perspective. Improve Business. Enjoy Life.



Financing Business Growth

TAB CEO Forum

Today's Agenda

- State of the credit markets
- What a bank wants to see & how to position yourself to be more “bankable”
- A case study & real world examples
- Alternative forms of financing

STATE OF CREDIT MARKETS

- Unemployment down, but job creation not gaining momentum
- Housing market still not firming, multi-family stable/stronger
- Government funding/spending curtailed (all levels)
- Low interest rates not inducing investment
- Longer range view has turned more pessimistic

State of Financial Institutions

- Failed banks:
 - 44 – 2011
 - 157 – 2010
 - 140 – 2009
- Watch list: 800-900+ institutions
- Illinois failures:
 - 4 – 2011
 - 16 – 2010
 - 21 – 2009
- Illinois: 630 banks at 12/31/09, now 595 banks at 3/31/11
- Illinois: Delinquency 2.00%, Reserves 1.41%

(FDIC State Profiles (Illinois) 1st Quarter 2011)

- Lending standards and terms eased, continuing trend
- Increased demand for C&I and CRE loans, less so with smaller firms
- Decreased demand for residential loans
- Commercial credit quality improving

(April, 2011 Senior Loan Officer Survey, released May 2, 2011)

What Does This Really Mean?

- Increased competition for “bankable” companies
- Distracted or constrained banks are not/cannot lend
- Fractured market – active lenders are out there
- Lending standards still high, stress on fundamentals
- Relationship movement & restructuring; limited new investment

BECOMING MORE BANKABLE

What a Bank Wants to See

- Upfront information and honesty
- Good cash flow and credit history of business (D&B credit profile, etc.)
- Clean personal cash flow and credit history
- How much credit and outstanding debt there is
- Financial forecasts for the company
- A business plan and/or model that outlines your company's objectives and plans
- It helps if your personal or business' deposit accounts are already with the institution (provides history and relationship)
- The ability and willingness to provide a personal guarantee on a business loan or line
- A relationship with attorney and/or accountant

Becoming More “Bankable”

- Review your business/personal credit profiles for errors, closed accounts that show open, etc.
- Solid management teams
- Timely and accurate financial reporting
- Monthly bank reports; including balance sheet, income statement, A/R aging and borrowing base
- Proactive communication
- Lean on your advisors (accountants & attorneys)
- All in all, information is “KING”. By providing more, a Bank can be proactive and react quicker to financing needs

A CASE STUDY

Medical Equipment Manufacturer

WINTRUST
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- 10+ year old company
- Single owner
- >\$1MM in R&D costs over 2-years
- Fortune 500 customer base

The Challenge

- Lost \$1MM in 2008
- Owner leveraged, injected all possible funds
- Negative net worth
- High level of payables – many stretched/past due
- Incumbent bank nervous, less cooperative
- Inconsistent customer order volume

- Generate sales for new product
- Immediate additional working capital to carry anticipated A/R
- Additional permanent working capital to address sunk costs
- Bring suppliers current
- Improved financial reporting and consultative support

The Solution

- Restructured financing
 - Line of credit
 - Term loan with short amortization
- Subordination of owner's injected capital
- Require A/P reduction before closing
- Expense management
- New accountant

ALTERNATIVE FINANCING

SBA Guaranteed Loans (7a)

- New and refinance options available
- Guaranty may induce lender to stretch
- Best used for:
 - Longer term/amortization
 - Collateral shortfall
 - Limited guarantor support
 - Short time in business
- Lengthier process, additional approvals
- Lender receives 50-75% guaranty

- ABL is a specialized form of secured lending where the bank takes a first lien on all company assets
- Structures include a revolving line of credit secured by the borrower's accounts receivable (A/R) and inventory and term loans secured by equipment and real estate
- Typical advance rates are 80-85% on accounts receivable and 40-60% on inventory
- It involves extensive monitoring ABL, but can be attractive for acquisitions, buyouts, recaps, turnarounds, growth and seasonal financing
- Pricing is generally higher to compensate the bank for the higher risk and monitoring expense

- Viable option, but not long term solution
- Expensive – take % off A/R
- Generally can be setup quickly
- Loss of control
- Can be challenging to transition later

Mezzanine Financing - “Mezz”

- Second lien behind senior debt
- Carries significantly more risk than senior debt
- It is generally priced higher (12-20% per annum)
- In some cases, a small equity warrant in the business ranging from 5 to 20% will be required
- Mezzanine loans are long term money
 - Usually require only interest payments with no principal payments for the first 3 to 4 years
 - Most mezzanine loans mature in 5 to 7 years

TABLE EXERCISE

TAB Chicago CEO Forum – Action Plan

1. Of the “Bankable” qualities presented today, what are my 3 strongest, and what are the 3 I need to work on?
 - a. 3 Strongest Bankable Qualities
 - b. 3 Bankable Qualities I Need to Work On
2. What action(s) will I take (personally and organizationally) in the next 30 days?
 - a. Personal Actions
 - b. Organizational Actions