America's Most Convenient Bank®

Assessing Your Company's Financial Needs

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2017

Introductions

This workshop is intended to assist business owners on how to identify their company's financial status and future financial needs and what financing options are available to them.

Small business capital

Cash in the Lifeblood of all Companies

The source of financing that most business owners choose include:

- **Friends and Family Financing**: Tapping your close network of friends and family for funding
- **Credit Cards:** Reach into your own "plastic" pocket for initial funding
- **Small Business Administration**: Guaranteed Loans: Letting Uncle Sam help back your loan, which is awarded by an SBA-participating bank
- **Bank Loans and Lines of Credit**: Going right to the bank itself for a loan or line of credit
- **Angel Investors:** Finding interested individuals who invest money in exchange for future profit sharing.
- **Venture Capitalists:** Seeking out early-stage investors who put up funding in exchange for a portion of your company.

Small business capital

Your Own Wallet:

Banks, lenders and investors all like to see small business owners who are willing to put up money for their own ventures, so the first step on the road to financing should be your own pocket. Whether it’s from personal savings, credit cards or a second mortgage on a primary home, entrepreneurs often look to their own resources for money before asking others for help. These options are best for the small business with low overhead – such as a service business – that needs less than $10,000 to get started.

Small business capital

Friends and Family: The next stop on the financial trail will be your circle of friends, family and colleagues – many of whom may be willing to chip in a few bucks to help get your small business off the ground or assist with its expansion. By tapping multiple sources and by documenting the deal and including a feasible payback date (either a lump sum, or payments over time), the enterprising small business owner can cobble together a healthy sum to get the business on the right track.

Small business capital

Local Banks:

Banks offer a variety of credit and noncredit services to meet the unique financial needs of small business owners. The many products and services offered by banks such as loans, deposit accounts, investments, cash management, and international and trust services can assist in furthering your business goals. Assessing your needs before choosing a bank will ensure you have selected a bank that is best suited to help you meet your financial goals

Small business capital

SBA-Backed Loans

The Small Business Administration offers a variety of financing programs targeted at startup and existing companies.

Small business capital

Angel Investors:

Angel investors are private investors who will fund growing companies in exchange for a healthy share of the profits. Angels are normally successful business people. Not only can they provide you with a capital infusion, but the often are a source of seasoned business advice as well. Angels are usually on the prowl for sound business models and business leaders who display intelligence and dedication. They tend to invest in local businesses, or in a business sector they know well, in exchange for either a portion of the company or a percentage of future profits.

Small business capital

Venture Capitalists: These firms help expanding companies grow in exchange for equity or partial ownership. VC firms look for concise, straightforward business plans that accurately describe the risks as well as the benefits of a business venture. This financing option is very good for capital-intensive companies in fields like high-technology, since a venture capital firm will usually not consider financing of under $5 million.

Small business capital

Assess Your Company's Financial Needs

For starters, you'll need to:

- **Be Informed –** know your company, its industry and potential or existing customer base inside out.
- **Get educated on the process –** Familiarize yourself with the ins and outs of the current financing environment.
- **Be honest -** about your firm's financial status and future needs- Lay your firm's financial picture out on the table, and get ready to share it with your bank and/or potential investors.
- **Plan effectively –** Underestimating your firm's financial needs will leave you high and dry when you need the funding most, while overestimating can put you in more debt than you intended.

Small business capital formula

To figure out how much funding you'll need to reach your firm's targeted goal, use this formula:

- Determine your projected sales over the next year (use last's year's sales as a guide, then increase that number by how much they'll be up or down this year)
- (New companies) Determine your startup costs (estimate one-time costs for expenses like beginning inventory and supplies; advertising and promotion; permits licenses and related fees)
- Add your company's recurring costs, like rent, utilities and wages

By subtracting your startup and reoccurring costs from your projected sales, you'll be able to determine if your firm will be operating at a profit or a loss, then calculate exactly how much money you'll need to reach your financial goals.

The right choice

How much money do I need to borrow and what repayment schedule fits with my business cash flow?

- Balance Sheets
- Cash Flow Statements
- Income Statements
- Detailed projects of your firm’s financial activity

The right choice

- **General Information:**
  Business name, names of principals, social security number for each principal and the business address.

- **Purpose of the Funding:**
  Exactly what the funding will be used for and why it is needed.

- **Amount Required:**
  The exact amount you need to achieve your purpose.

- **Business Description:**
  History and nature of the business, details of what kind of business it is, its age, number of employees and current business assets.

What lenders look for

The criteria

- Debt-to-Net-Worth
- Ability to Repay
- Collateral

What lenders look for

Debt-to-Net-Worth:

The debt-to-Net-Worth ratio is a measure of the relative financing provided by the lender-investors against financing provided by the owner-investors. Generally speaking, public lending agencies do not like to go above 5:1, and conventional lenders do not like to go above 2:1. In most startup businesses, lenders will want the owners to inject 20 to 50 percent of the start-up costs from equity.

What lenders look for

Ability to Repay:

Because startup businesses have no historical trends, lenders are somewhat reluctant to make them loans. Therefore, it is important that start-up entrepreneurs prepare thorough, reasonable, and documented monthly cash flow projections for at least one full year.

What lenders look for

Collateral:

Lenders generally “factor” collateral. In other words, they assume that if they were forced to liquidate assets to repay the loan, they would get less than the market value. As a rule of thumb, a business should offer $2 for every $1 of loan. Collateral can include a combination of any or all of the following: business assets, quality on a home or other real estate provided to the lender through a mortgage, a pledge of collateral of stocks, certificates of deposit, and/or a co-signer for all or part of the loan.

Bracing for the future

Implement a strong financial cornerstone for your company with the following steps:

- Maintaining well-organized financial documents and records
- Implementing and maintaining good business and personal credit.
- Conferring with other business owners what has (and what has not) worked for them on the financing front.
- Using the knowledge and information gained from the financing experience to good use when seeking future funding (for example, by knowing what investors want before they even ask for it).

Bracing for the future (cont'd)

- Using the knowledge and information gained from the financing experience to good use when seeking future funding (for example, by knowing what investors want before they even ask for it).
- Establishing relationships with bands, lenders and other investors both in your community and within your industry.
- Being visionary on the financial front by staying on top of your company's financial needs and being able to fulfill them before they arise.

How does assessing your company's financial needs help you access capital?

5 Cs of Credit[1]

- Character
- Credit Score
- Capacity
- Capital
- Collateral

[1]Forbes, November 5, 2013

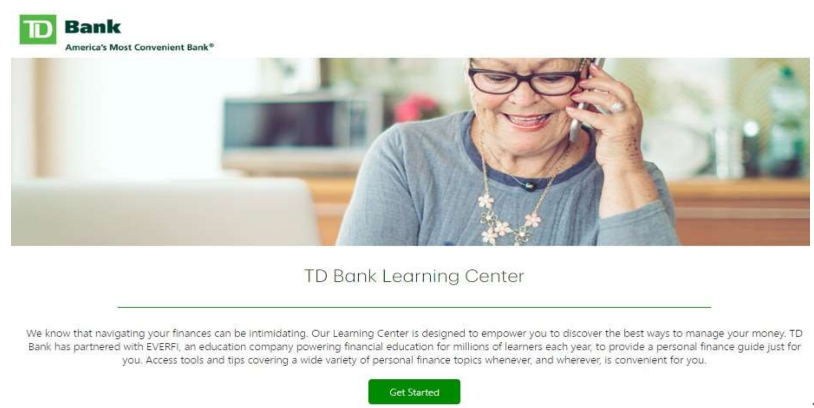
Let's get digital!

Visit the **TD Bank Small Business Resource Center** for virtual workshops and more:

- Video tutorials on a variety of topics including:
  - Creating a competitive advantage
  - Preparing a balance sheet
- Download templates
- Go to **https://www.td.com/us/en/small-business/resource-center/**

Learn more about your personal finances and visit the **TD Bank Learning Center**:

- Interactive lessons in less than 10 minutes – from any device!
- Topics include credit reports and scores, identity protection, financing higher education, and more.
- Go to https://www.td.com/us/en/personal-banking/finance/



Stay in touch!

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