GUIDE

How to Finance Your Growing Business

EVERGREEN
WORKING CAPITAL

Introduction

All business owners dream of success, each with their own version of what it means to be successful. Some plan carefully and others just wing it, but a common theme in many stories is underestimating how much outside financial support it takes to grow.

Most businesses don't generate enough cash for long-term rapid growth.

All companies are unique, but many owners face similar challenges when looking for money to grow. A guiding principle is to seek a balanced approach to funding sources, a healthy mix of cash from operations — loans and equity.

Too much reliance on any one type of financing can end up constraining your growth.

This guide introduces the most common ways to generate working capital and how to pick the right ones for your business.

Cash from Operations

PROS: A steady cash flow from sales can be ideal for growth since it is self-sustaining, organic and expandable.

CONS: Cash from credit sales can be delayed by 60 days or longer, wreaking havoc on your bank account when making payroll or paying suppliers. Waiting on invoice payments can delay reinvesting in inventory and fulfilling orders, which could lead to canceled orders.

BOTTOM LINE: Ongoing sales are often not enough to fuel growth. Most businesses rely on outside financing options until growth slows and cash flow catches up to sales. The best solutions to increase cash flow quickly are asset-based lines of credit and factoring the accounts receivable, to be discussed later.

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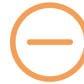
Debt Financing

PROS: Both short-term and long-term loans should be used to support growth. Lines of credit provide ready access to cash in the short run while waiting on accounts to pay or inventory to be sold. Long-term loans provide a stable and dependable source of working capital to support permanent sales growth. Banks are among the least expensive sources for loans, so talk to your bank about supporting your business growth. The bank will be interested in the details of your business plan, your company's financial condition, demonstrated ability to repay the loan and the available collateral to secure the loan. Non-bank lenders specializing in lines of credit for accounts receivable and inventory are called **asset-based lenders**. Asset-based loans provide a smart approach to financing. The loans are expandable with growing accounts receivable and inventory, and repayment is automatic with the collection of accounts.

When buying assets such as equipment, vehicles or real estate, it's best to take full advantage of available loans and minimize your cash outlay.



CONS: Banks usually require collateral other than accounts receivable and inventory to support lines of credit. Some banks offer loans guaranteed by the Small Business Administration, but the SBA is very restrictive in their loan agreements, which can limit future financing options. Asset-based loans usually have higher costs than traditional bank loans. You should avoid fast and easy loans available on the internet. In most cases, these loans will be toxic to your business, with accelerated repayment plans and extremely high financing costs.

BOTTOM LINE: Borrowing money to grow your business is a great idea, but the loan design is critical. You must find a lender willing to work with you to customize a loan for your company's needs. Asset-based lenders are your best bet for funding rapid growth in the short run. Continued growth in current assets such as accounts receivable and inventory, should eventually be financed with long-term debt or equity. When buying assets such as equipment, vehicles or real estate, it's best to take full advantage of available loans and minimize your cash outlay. These assets provide good collateral for lenders, making the loans easier to obtain. The hardest thing to finance directly is working capital, so save your cash for operating purposes.

Equity Capital

PROS: Equity capital is the total amount of cash or cash value invested in a business by the owners. Equity expands when a company makes a profit, and it reduces when losses occur. Equity is critical to financial stability because it provides permanent support for long-term assets and working capital, and most importantly, it does not require a scheduled repayment.

CONS: If you need to turn to outside investors, they may want to actively participate in managing your business. Equity investors require a percentage of ownership in your business and expect a high return on their money.

BOTTOM LINE: Equity is considered the most stable source of business funding. For many small businesses, equity usually comes from personal savings, home equity loans, retirement accounts, and informal loans or gifts from family and friends. Partnering with an outside investor has advantages in addition to the money. You gain a voice at the table with a different business perspective and a vested interest in your success.

WHAT IS WORKING CAPITAL?

Working capital is the portion of a company's total capital used in day-to-day operations.

Your company's working capital is calculated using figures from the balance sheet.

CURRENT ASSETS –
CURRENT LIABILITIES =
WORKING CAPITAL

A strong signal that you need more working capital is not having sufficient cash to pay bills and other obligations on time.

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Factoring

PROS: Factoring is designed to maximize sales growth. Factoring involves selling your invoices at a small discount for immediate cash, eliminating the delay of credit sales. Factoring is a more valuable tool for growth than loans for several reasons. Factoring provides higher funding limits; funding is based on the financial strength of your customers; and it shifts the burden of carrying accounts receivable to the factoring company. A built-in benefit is professional credit management services provided by the factoring company.

CONS: Factoring costs more than a bank loan. Your business must have accounts receivable to use factoring as an option.

BOTTOM LINE: Factoring is specifically designed to enable growth, and it is not limited by your company's financial condition. The decision to grow your business with factoring should be made with the intention of increasing profitability, which is predictable with a simple revenue and expense projection. Factoring allows your company to grow with less debt, giving it greater financial stability and more funding options in the future.

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Find the Right Financing Solution

You need an intentional strategy. The more sales growth your company has, the more likely it will need outside financial support.

A trusted adviser can help you see the future and ensure the layers of funding are compatible with growth. Getting your financial house in order will bring you peace of mind and allow you to enjoy your business journey as far as you want to take it.

CREATE A GAME PLAN

- ☐ Identify why you need the money.
- ☐ Gather the facts. You will need to accurately communicate the condition of your business.
- ☐ Hire help. A CFO for hire or business-consulting CPA can help you understand your current needs and establish a realistic 1-3 year financial projection.
- ☐ Determine how and when you expect to be able to repay the money.
- ☐ Your business need is an "opportunity" you are trying to sell to a lender or investor. Successful financing relies on your ability to package your offering and sell your story.
- ☐ If more debt or new investors are not the right fit for your situation, consider factoring your invoices for immediate and continuous cash flow support.

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