SECURING YOUR BUSINESS INVESTMENT WITH

FINANCE

By Brendon Falk

Initial Calculations

Many prospective buyers investigate the feasibility of financing the purchase capital as an alternative to committing their own funds. Some buyers also chose to keep an equity stake in the business by using a combination of their own capital and finance the rest (low LVR). In either scenario, there are two very important calculations that you should perform. Firstly, you will need to estimate the total purchase capital required. This consists of the (i) the purchase price (ii) stock in trade (iii) working capital and (iv) transaction costs. My other guides contain detailed information on each of these areas. Keep in mind there are strategies to minimise stock by timing settlement at the bottom of the stock cycle and reordering on account with the stock suppliers (creditors). You can also finance working capital through an overdraft facility or debtor finance which is efficient cash flow management.

Once you have estimated the total purchase capital, you then know how much it will actually cost to complete settlement and keep the business running, thus the total amount of capital required. Secondly, deduct the amount of capital you are prepared to contribute and this figure is the amount you plan to finance. You should then estimate the interest payable on the principal sum over the term of the lease (the lease will most likely dictate the term of the loan). Deduct the interest from the operating profit shown in the Income Statements (P&Ls). This will give you some idea of the profit net of finance costs as part of your feasibility analysis.

Will the Financier Lend?

Without going into considerable detail, the financier will have a few very important criteria. These are really for your own good because if you can't tick off these boxes, then you are in a high risk category. So what are the boxes?

Capability	What is your background and do you have the skills and experience to run the business?
Lease	Does the lease offer security of tenure so you are not forced to relocate?
Profitability	Is the business sufficiently profitable to pay all expenses and still have a safety margin?
Security	Are you prepared to use business assets and personal assets as mortgage security?
Business Plan	Are you also prepared to write a business plan with cash flow projections for the bank?

If you have answered yes to all of these questions, you will be in good standing to secure your finance capital.

Important Contract Clauses

If you plan to purchase with finance, be aware of the following contract conditions and clauses:-

Deposit - The deposit is usually paid upon entering into a contract. You will need these funds available upon signing.
Amount - It is advisable to not state the amount, in favour of the following wording '*sufficient to complete settlement'*
Financier - It is advisable to not state the financer, in favour of the following wording '*financial institution'*
Finance Due - Allow at least 14 days from signing as the bank will only process the application with a valid contract.

Should you require any further information or assistance on this topic, I invite you to contact me on my landline (07) 4124 4677, my mobile 0412 311 803 or by email bfalk@foresightbusiness.com.au.

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